FOREIGN BROADCAST INFORMATION SERVICE

# Daily Report

## Supplement

# East Asia

## JAPANESE BUSINESS—THE SEARCH FOR TOMORROW

FBIS-EAS-90-170-S
Friday
31 August 1990

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*FBIS-EAS-90-170S* *31 August 1990*

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[An * indicates material not disseminated in electronic form.]

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*** Enterprises Seeking Strategies for Tomorrow**

*** Enterprise Management**

*902A0193A Tokyo ECONOMY SOCIETY POLICY in JapaneseMay 90 pp 2-3—FOR OFFICIAL USE ONLY*

[Foreword by NEC president, Tadahiro Sakimoto]

[Text] **The Shape of a New Era**

Today, when 10 years remain until the 21st century, Japan is about to shift from a "fully mature industrial society" to an "information society." In the midst of this situation, which could be called a change in the structure of civilization, society is entering an era of qualitative changes. I call one of them the advent of "the era of individualistic masses." That is, in an industrial society there exists what is called the needs of the masses, and the core of enterprise activity was based on the concept of "mass," which is to mass produce standardized articles, reduce the price and sell them in large volume. But today, when basic needs have been met, people's needs have become more diverse and more advanced; moreover, that change has become intense. Therefore, enterprises are being pressed to engage in so-called small-volume production and sale of many varieties in order to cope with this trend. And this trend will become still stronger in the future, so truly each individual will assert his individuality, and the era in which this can be realized, that is, "the era of individualistic masses," will arrive.

Another thing is the matter of the "era without borders." The activities of enterprises have reached the point of being expanded across industry types as befits being called interindustrialization, and in addition is showing expansion which crosses the fences of national boundaries. Moreover, in the aspect of technology, too, fusion of technology is progressing, as in the case of bioelectronics, for example. Thus, enterprises are becoming entities which could also be called "borderless enterprises," which carry out activities which go across all "borders."

**Seeking Enterprise Reform**

With the arrival of this kind of new era, reforming enterprise management is really being sought.

The first point is the matter of how to make use of "information resources." That is, it goes without saying that being able to quickly siphon up the diverse needs of markets which undergo intense changes and respond to them is important. But today, it has become an era in which how to advance one more step and use information skillfully as a strategic resource influences the development of enterprises. Herein lies the reason why of late the building of SIS (strategic information systems) with the objective of establishing competitive superiority by directly linking management strategy and information systems, or creating new projects, is taken up as an important task in business management.

Furthermore, when we enter the era without borders, and the scope of enterprise activities begins to expand, the significance of networking will become very great, and being better able to communicate information which makes use of networks will gradually become indispensable.

In that sense it can probably be said that an era is coming in which the meaning of the words "information is the fourth management resource after people, objects and money" will become more important than it has been up to now.

The second point is that "individualization of enterprises" will be more sought after. It may be permissable to rephrase this as "the era of enterprise culture." In an era of the individualistic masses, that is, in an era in which people's sense of values diversifies, it will be necessary for enterprises, too, to actively express their own individuality. Just as each person has individuality and has a face, it is to be expected that enterprises which exhibit combined power as a collective body of people will also have a face as an enterprise. And it is precisely enterprises in which each member of the staff exhibits individuality freely which will have been activated, so their face's, too, will be animated. To put it another way, "CI," corporate identity in the true sense, is really being sought, and that leads to an individualistic enterprise culture. In other words, it is demanded that we foster a corporate culture which respects the individuality of each employee, and in which each person behaves enthusiastically.

Moreover, when the scope of an enterprise's activity expands, and the dissappearance of borders advances, the idea of "holistic management" will begin to become important. This is management which attempts harmony as an entire enterprise group (HOLOS), while respecting the individuality of the respective projects or subsidiaries (ON). And what is important when harmonizing the individual with the whole is corporate culture. For example, when we consider the globalization of a certain company, which is the model for loss of borders, each country will have its own culture, and furthermore, subsidaries located there will have the enterprise culture of the subsidiaries, so things will never go well unless you conduct management which respects them. But at the same time, they will have to go on being linked organically to the the entire enterprise group, and for that reason, a "corporate culture" will become necessary as a sense of values or standard for behavior which has a global universality, that can be held in common by staff members throughout the world.

As we head toward a new era in which diversification and loss of borders will progress, it is demanded that we foster a corporate culture which has corporate ideology as its nucleus, and go on enriching it; an era is coming in which, truly, "corporate culture will be the fifth management resource after people, things, money and information."

## * Market Structure, Management Form

*902A0193B Tokyo ECONOMY SOCIETY POLICY in Japanese May 90 pp 4-13—FOR OFFICIAL USE ONLY*

[30 March 90 roundtable discussion with Sueaki Takaoka, Seiyukai chairman; Mitsuyo Hanada, SANNO College professor; Yuichi Moriya, Hitachi Research Institute director; and Masaaki Aoki, EPA Economic Research Institute deputy director: "Japanese Type Market Structure and Enterprise Management Method: Its Essence and Future Image"]

[Text] In the Structural Impediments Initiative [SII] talks the U.S. Government took up the price mechanism, distribution system, exclusionary trade practices and keiretsu transactions as points which the Japanese Government should improve. The emphasis of economic friction has now shifted to such micro-aspects as market structure and enterprise management.

This magazine had knowledgeable persons freely discuss the essence of Japan's markets and enterprises, and their future image.

### Part I: How Will Japanese Type Market Structure Change?

Aoki: In today's roundtable discussion I would like to have you turn your attention to Japanese type market structure and enterprise management methods, and then survey how they will change in the 1990's.

First, concerning the perception of Japanese type market structure, in the SII talks, and so on, America is criticizing the Japanese market by the words "systematization, cartelization, development of collusion," or "closed, exclusionary" and "opaque." But are not superior points, too, one side of that? First of all, I would like to hear your opinions concerning such points. Well then, would you please start, Mr. Takaoka.

### What Is Japanese Type Market Structure?

Takaoka: I can point out the following kind of points in regard to the Japanese retail industry and the consumer-goods market which surrounds it. That is, in the era when the level of the economy was low, Japan's retail industry, along with agriculture, had the role of an entrance and exit for the unemployed. Furthermore, after World War II, many small-scale retail stores came to be built by people who were repatriated from foreign lands. Consequently, the retail industry is not all that strong, so even in periods of economic revival, the consumer goods market goes on being formed by the leadership of manufacturers. Moreover, the retail industry never took the lead even in the aspect of distribution, so the aspect of the wholesale industry leading was strong.

On the other hand, speaking from the viewpoint of internationalization, up until a dozen odd years ago Japan's consumer-goods market had become an isolated market that was separated geographically from overseas markets, so retail prices have been arrived at without much relation to an international price system. Consequently, I think the problems pointed out by America certainly exist.

However, as to the management methods and marketing methods of Japanese enterprises, they are based on things which were originally introduced from America from the 1960's. Actually, such things as the present dealer-help centered systematization are things that were learned from America. That means it is just a matter of Japan having developed it very exactly and diligently.

Even if you look at America, there was an era of chain store regulation from the aspect of the tax system, when from the 1920's into the 1930's business tax was levied twice on chain stores that had shops spread across a state. Furthermore, in the midst of the process of enterprises becoming huge, all sorts of problems arose in the aspect of rebates, and so on, so in the 1930's the R. Patman Law was enacted.

That is, if you look at the historical process, it can be said that the same kind of things were occurring in both America and Japan.

On the other hand, the following kind of debate has arisen among America's marketing-related scholars. That is, it is the idea that it is precisely in the distribution *keiretsu* that the supplier's investment is made. And that consequently, it is natural, is it not, even if there are exclusionary transactions, since one is seeking a return on investment by means of a distribution *keiretsu*. If it becomes a matter of another enterprise selling products in *keiretsu stores where we pay various costs to sell our own merchandise, the argument will arise that the other enterprise is getting a free ride on merchandising costs. Criticism of the antitrust law from this viewpoint appears to have emerged in U.S. learned societies.*

That is, I, too, think that a fair part of what America is asserting about the Japanese market is correct, but it is correct when viewed up to now, and I wonder if the evaluation will not begin to change in the future.

### Attention Given to the Japanese Market's System of Exchanging Information

Moriya: The theme which has been given to us is the special qualities of the Japanese market, but I think there is no necessity for sticking too much to the special qualities of Japan alone. That is, they are often compared, as in Japan and America, and Japan and Europe, and I suspect that if one looks closely a fair number of common points will be seen.

To begin with, firstly, as Mr. Takaoka pointed out, the point that after World War II Japan's economic development was given its special character by the formation

of *keiretsu* type markets based on manufacturer leadership is probably a fact. However, when seen from the side of the maker, this, too, has the aspect that makers, themselves, had to create markets and build *keiretsu* stores because in spite of the fact that all sorts of new products appeared, one after the other, because of production technology introduced from Europe and America, a retail market as something to receive them had not developed.

Second, is the fact that the Economic White Paper for FY81 points out the importance of "the development of common ownership of knowledge and information by the masses" as one factor in the growth of the Japanese economy, and that factor also existed at the enterprise-group level.

That is, it is my view that if a special quality of Japan's product circulation market exists, I suspect it is rather to be found precisely in the system of information exchange which includes mutual education among those concerned.

To put it in concrete terms, I think Japan's system of information exchange has the following three special characteristics.

One is the quality of broad-scope. The reason that *keiretsu* become a problem is because there is the possiblilty of their expansion. There is no expectation that they would have become a problem if they remained small.

The second is the quality of being long term. The fact that mutual exchange of knowledge related to production and distribution or to technology has been carried on over a long period is seen not only in the distribution market, but also in the production factor market. For example, such things as the existence of an internal labor market in enterprises, ranking by seniority and permanent employment are frequently pointed out as special characteristics of Japan's labor system, but I think that in a certain sense these, too, can be interpreted as a system of long-term exchange of information. In other words, the process of mutual education continues for a long time.

For the third, the special characteristic of a closed nature emerges, does it not, as the result of that wide scope and long-term nature. The point that costs are borne in order to exchange knowledge and information is as pointed out earlier by Mr. Takaoka. The result of pursuing the most efficient information exchange system for a specific purpose produced the special characteristic that *keiretsu* are efficient for those related to them, but are exclusionary for those with no relationship.

However, the questions of what should be the "width" of information exchange, or what should be the approximate length of time-units considered in information exchange will probably change along with changes in the Japanese economy. It will be different from an era in which, as up to now, we had only to deal with a population of 120 million people; when enterprise activity becomes global, I think a change to a new system which also calculates the relationship with the people of overseas companies will become necessary.

### A Gap in Perception Related to the Japanese Market

Hanada: I think the following kind of problem can also be pointed out concerning ways of looking at the Japanese market.

That is, to some extent we Japanese have a common perception concerning the characteristics of the Japanese market, and how it will go on changing, but how far do the people of all the foreign countries understand the Japanese market? Should we not reconsider this point once more?

For example, Japanese enterprises expand to Southeast Asia, and try to start joint ventures with overseas Chinese. Thereupon the overseas Chinese cooperate with the Japanese enterprises by laying in raw materials from enterprises managed by their own family or relatives or conducting transactions with them. Are not Americans looking at Japanese trade practices with an image of this kind of oveseas Chinese type network? What is the American silent majority's perception of the Japanese market, which has become a lever of demands on Japan even in the SII talks? I think that point becomes quite important, even in studying the response of the Japanese side.

In particular, it is questionable how far the average American understands what kind of staff are sent to Japan in and what kind of activites they engage in when a U.S. enterprise expands to Japan. What kind of sense of reality do you suppose a person who cannot speak Japanese at all, comes to Japan, talks to other Americans at the American Club, and goes back to his homeland in a rotation of about three years has? Does not a considerable gap exist between the form of the real Japanese market, and the perception we Japanese have of it, and the perception which the average American has of it?

### The Structure of the Japanese Type Market of the 1990's

Aoki: Well then, I would like to have you forecast how the conditions surrounding the Japanese type market structure will change in the 1990's, and how the Japanese type market structure will develop over the next 10 years.

Takaoka: As might be expected, the trend in the economy toward globalization will probably become important.

When one looks at the movement of goods and the movement of money, they have become very global, and consumer goods, too, are not an exception to that. But in the case of consumer goods, there are language problems, so it can probably not be denied that progress will be slow.

But now, when it has reached the point where all of 10 million Japanese go overseas in a year, and opportunities to consume overseas also increase, a comensurate educational effect emerges, so the globalization of the consumer goods market will probably be increasingly accelerated.

On the other hand, put simply, America's demands in the SII talks are a matter of telling Japan to make the structure of the Japanese market, and its system, or enterprise behavior, identical to the American way of doing things. When I consider the proper nature of the Japanese response, I think that, even if it is in stages, there is, after all, nothing to do but bring it closer to the American way of doing things. In that case, I do think the Japanese market will change greatly, but will not that change become a plus for consumers in terms of the result?

Aoki: Do you mean that the Japanese market, too, will gradually become a free competition type market like America?

Takaoka: It is an undeniable fact that if we look at the price of consumer goods under the strong yen, they did not drop to the point where the advantage of the strong yen was reflected 100 percent. As might be expected, this means that there is a big problem in the core part of the Japanese market, so I think it will be reconsidered in the future.

Aoki: It is often pointed out that the reason why Japanese enterprises are carrying on dealings which continue over the long term, with a limited number of clients based on "reliability" is that the profit from that was large. But do there not exist in these kind of business relationships aspects which are not necessarily advantageous to the enterprise? As for only being able to do business by "association," is it not a minus when considered from enterprise profits? I think this fact will be recognized gradually.

**Can Consumers Change the Market?**

Moriya: I think there are two factors for changing Japanese type market structure.

One is change in international market conditions. Up to now a Japanese enterprise's disposition of its management resources has been carried out centered on the domestic market, but after this it will change into something international—or rather, it is already changing rapidly. To put it clearly, setting aside what they did in Japan, is it not a matter of Japanese enterprises not having understood the international method of exchanging information? While that has progressed rapidly, there is also friction.

"Deindustrialization" is often pointed out in regard to U.S. industry, but one can also interpret this as the result of proper international specialization having developed, and the most efficient distribution of resources in international terms having been carried out. Consequently, in America the difference between domestic and overseas prices has also not become that big a problem.

Looking at it in regard to Japanese enterprises, up until now international expansion has been carried out in the form of localization of only the production stage, but in the future it will probably progress as far as R&D, product planning, design and marketing in response to the special characteristics of each country. In addition, the scale is not all that big at present, but I think that reverse importation into Japan of products from overseas production bases will also go on increasing.

There is no doubt that if the internationalization of Japanese enterprises progresses in this manner, the structure of the Japanese market, too, will receive the influence of an international market structure, and will go on changing gradually.

Another point to pay attention to is the move of consumers. I think that the demands made of Japan in the SII talks are seeking the view of Japanese consumers concerning the structure of the Japanese market. That is an extremely important question over the long term.

To put it in terms of an American example, when a movement emerged to control importation of Japanese cars, American consumer groups analyzed in detail the merits and demerits of import controls, and made a clear counterargument based on the result.

But not only does such a movement not become prominent in Japanese consumer groups, there are aspects which appear as though such a movement does not even exist potentially. Certainly there are demands concerning resolution of the difference between domestic and overseas prices. But when it comes to assertions concerning the rate of self-sufficiency in food, and deindustrialization, most are unclear as to whether they are based on a consumer-type view. In other words, if one were to ask whether a factor exists on the consumer side which would change the structure of Japanese markets, I would have to say that I am not at all sure.

Consequently, in regard also to response to market changes, it would be an exaggeration to say it is led by producers, but I think it is necessary for producers to take into account the feelings of consumers. But if we look at recent trends in the distribution market, the superiority of volume-sales type distribution networks to *keiretsu* store type distribution networks is striking. The kind of development it will show combined with this kind of change on the distribution side is probably something to which we should pay very close attention.

**The New Market Structure Which Service Industries Are Ushering In**

Hanada: When looking at structural changes in the Japanese market, I think the point of how enterprise and industry networks change also becomes important.

An article which said that the life span of Japanese enterprises is 30 years once appeared in NIKKEI BUSINESS. The period during which an enterprise is ranked in the list of the top 100 in sales is, at most, no more than 30 years. That is how fierce the ups and downs of enterprises are. Even looking at industrial structure, the big change from manufacturing industries to service industries can be seen, right.

How will the structure of the Japanese market develop when industrial structure has become centered on service? I think there will be born a new Japanese type of market structure which is not seen in foreign countries.

I say that because it is conceivable that Japanese service industries will not necessarily aim for the kind of horizontal specialization that is seen in Europe and America. Whether one looks at department stores or supermarkets, Japan is the only place where they are developing in a diverse manner including such leisure-related services as culture centers, sports, and travel.

When you consider it this way, will Japanese-type new trends emerge concerning the structure of the Japanese market, having relevance to changes in industrial structure?

Aoki: Another issue is the point of whether a Japanese type market structure will not have a beneficial effect if introduced into the economies of other countries. Actually, if you read the article by Professor Kozo Yamamura of Washington University (SHUKAN EKONOMISUTO), you become aware that Japanese-type market structure seems to be extremely beneficial to the economies of developing nations.

What do you think of this point, Mr. Takaoka?

### Sales Networks Which Are Spreading in Southeast Asia

Takaoka: Of late, Japanese department stores and chain stores are opening a fair number of stores in Southeast Asia, but such British affiliated department stores as Lane Crawford in Hong Kong and Robinson in Singapore expanded to Southeast Asia long ago, and are obtaining the support of local retail dealers and consumers. Considering Japan's technological power on the circulation side, I think there is a fairly strong possibility that Japanese department stores and chain stores will succeed in Southeast Asia.

However, what I think will be most troublesome in the case of expanding to Southeast Asia is the fact that insufficient wholesale industry networks exist. This can also be said in Europe and America. In the case of Japan, there is the special feature that the wholesale industry networks have become the foundation for retail industry development by becoming an infrastructure. Consequently, in Japanese department stores an abundant assortment of goods is possible. Therefore, there is, of course, a difference in the course of development of markets, but would there not be an aspect of overseas consumers receiving benefits by Japanese type retail industries expanding overseas?

In particular, up till now Japan's retail industry thought of Southeast Asia only as a source of supply of goods, but its purchasing power has risen gradually, so it is becoming possible to form retail industry sales networks. Then, by means of a sales network uniting with a product development network, an optimum setup for production, distribution and sales would be formed in Southeast Asia—as in being able to sell in Jakarta and Hong Kong merchandise made in the Republic of Korea, and being able to sell in Singapore, too, merchandise made in Taiwan. Moreover, it is also conceivable that that trend will be promoted by the leadership of Japan's retail industry.

### Part II: How Will Japanese Type Management Methods Change?

Aoki: There are a number of ways of describing the Japanese type management method, but I think one can put its special characterics in order by dividing them into the following three. First, it is linked strongly to the special characteristic of Japanese-type market structure of limiting market effect by *keiretsu* transactions or long-term continuing transactions. Second are the three points of lifetime employment, ranking by seniority, and establishment of enterprise unions. Some modification may be necessary to match changes in conditions in recent years, but basically it has not changed, has it? Third, one can probably also cite such things as group decisionmaking, a management policy that emphasizes the long-term, fierce competition among people in the same industry or among industry groups to keep up with each other, and the placing of importance on in-house education.

In addition, it is probable that, for example, the non-specialized nature and flexibility of employees is also a major special characteristic of Japanese type management. Furthermore, as something that foreigners often point out, there is also the matter of associating for a long time with workplace companions, even outside of working hours, or continuing on an on with meetings, the objective and result of which are not clear. Concerning these long meetings, they may have the important role of unifying ideology within the company.

I would like to have you evaluate this kind of Japanese-type management formula from your respective fields of specialization.

Takaoka: When one is looking at the American management formula, certainly importance is placed on how to make a profit in a short time. Even looking at the case of M&A, it is questionable to what extent people are conscious of enhancing enterprise production and of long-term management policies.

I cannot help feeling as though the essence of management is being lost sight of as a result of the Harvard Business School-style of management formula, so to

speak, having developed too much. Nor can it be said that conglomerates have necessarily succeeded either. Consequently, in American enterprises, too, reflection on the proper nature of their management strategy has begun to develop, so I think the things which Japanese managers have aimed at were not completely mistaken either.

On the other hand, what about employment practices? I think that, as might be expected, Japan's system of advancement by seniority had its grounds in the fact that the wage level for Japanese was low. But recently a trend toward head hunting has emerged, centered particularly on large enterprises, which are able to offer high salaries. In that sense, I think there is a possibility that the mobility of the work force will increase considerably in the future.

**Japanese-Type Management Is Not Different in Nature**

Moriya: Although I can certainly recognize the existence of the special characteristics of Japanese-type management cited by Mr. Aoki, if one asks if they are peculiar to Japan alone, I think that is not necessarily the case. Even if one looks at the contents of the problems of U.S. enterprises pointed out in "Made in America," a report of MIT's Committee on Surveying Industrial Productivity, such things as emphasis on short-term profit, neglect of human resources, or lack of cooperative systems are listed. This means that the difference in the perception of the ideal nature of enterprise management in the two countries is not that great.

Concerning also lifetime employment and advancement by seniority, they exist in America too. Particularly at such large enterprises as GE and IBM, there is not as much changing of jobs as is generally thought, and it is normal for people to work continuously for many years.

Furthermore, even if we take group decisionmaking to be a special characteristic of Japan, in Japan's case it is the face to face type, what might be termed the walking around the halls, laying the groundwork type, but in America, too, there is laying of groundwork by sending written documents back and forth. In addition, in regard also to staff education in Japanese enterprises, the starting point for that system and teaching method and textbooks is in America, in GE, for example.

Consequently, I think it is necessary to analyze in detail whether, in the essential aspects of management, the Japanese special characteristics which are usually talked about are actually something which are uniquely Japanese.

On the other hand, building networks among enterprises by spending time and momey probably should also be called a special characteristic of the Japanese method of solving problems, more than a special characteristic of Japanese enterprises. But in regard to this, too, in the field of international finance, for example, there are in each country groups called currency Mafia, where face-to-face information exchange networks are formed, and within which they call each other by their first names. Therefore, it cannot be said that the nature of networks of Japanese enterprises is something all that different.

Moreover, there is a possibility that the nonspecialized nature and flexibility of workers will also cease to be a special characteristic of Japan alone. Once I attended an international conference of specialists on statistics; in Japan even a specialist on statistics circulates to various posts by rotation, so he is piling up a lot of experience on the shop floor. But specialists on statistics in foreign countries participate only in statistics from the very beginning. Foreigners who were attending that conference said "becoming a specialist really means becoming stereotyped. We hear that in Japan there is a system of changing at fixed intervals, and with respect to gaining a broader scope that is a wonderful system, so we, too, must study it." They, too, have that kind of way of looking at things.

Hanada: I think those special characteristics pointed out by Mr. Aoki no longer are apparent in Japanese enterprises.

I think that advancement by seniority, too, has already broken down, at least in staff positions, and lifetime employment, too, has from the beginning not existed that much in small and medium enterprises, and now it is beginning to break down even in large enterprises. For example, in banks, in the old days one was chased out at the age of 52 if one did not become a consultant, but now that has gone down to as young as 47, and it has reached the point where 70 percent of the same class end up leaving at that point in time. The movement of people is fairly severe in computer-related industries and the circulation industry, and it has become a situation where even in industries that were said to be stable, the majority of workers may not stay at the company until mandatory retirement age.

That is, does not saying "Japanese-type management will go on changing" mean a change from what was originally a competitive management arrangement to a new competitive arrangement?

**Decline in Communication of "Human Feeling"**

Hanada: On the other hand, communication of information has often been referred to up to now as a special characteristic of Japanese enterprises.

But in the symbols which make up the word "information" there is the symbol for the "sentimental" part, of management principles and sense of values, and the symbol for the unsentimental "reporting" part, such things as figures and management strategy. I suspect that although the communication of the "reporting" will be continued in the future as well, the communication of "sentiment" will gradually go on declining.

For example, in Mitsubishi Corporation there is something called the "instructor system" under which staff members in their fourth or fifth year with the company

conduct the education of new staff. Up until now an "instuctor allowance" for that purpose was paid, but now that allowance is being cut. This means that the "sentiment" part is being cut from the education of new staff.

In the general education of new staff as well, up till now it was centered on education by stages, beginning with education of newly entered staff, education in the third year, in-service training for supervisors and in-service training for newly appointed administrators, but this kind of education has been cut back considerably. And now a trend has emerged of a shift to education by craft, and cafeteria-type education, in other words, one chooses by oneself education for the purpose of self-improvement.

Thus, it is conceivable that the "sentiment" part has begun to decline even in education of company staff.

In addition, I think that one can also point out that the egalitarianism by academic record has also gradually broken down, and begun to shift toward personalism. Particularly in the case of service industries, they hire 800 or 900 college graduates, but it is impossible to advance all of them and promote them to a higher status. Selection is carried out strictly even for those who are all university graduates, so equality has declined considerably.

Well then, how would you describe personnel affairs based on an ideology of personalism? It has two sides.

One is the "doctrine of choice," by which employees can choose from a number of options the work which they, themselves, want to do. The doctrine of choice up to now, was centered on choice of work site and working hours. But I think from now on it will be centered more on the form of work, rather than the content of work.

The other is the "doctrine of challenge." This is actually carried out in such firms as Honda Motor Co., Ltd.; staff below the level of chief clerk are required to independently study to acquire qualifications by themselves.

I think this kind of doctrine of choice and doctrine of challenge will go on moving future personnel administration in enterprises, but there is also the possibility that it will lead to changes not only in the way of living within the enterprise, but in lifestyle itself.

**The Pension System and Labor Force Mobilization**

Moriya: Just now we heard from Mr. Hanada the observation that the systems of life-long employment and advancement by seniority have already broken down. But one can not consider this based on one enterprise alone, Japan's life-long employment and advancement by seniority must continue so that a person's ability can be utilized until about the age of 65 within the enterprise group. It is necessary to confirm this point for future reference. But even if we take that aspect into consideration, it is a fact that the traditional personnel system has undergone a great transformation. I think that, as Mr. Takaoka pointed out, labor force mobility will advance considerably, including the process of headhunting.

But I think that one more thing we must not forget as a condition which brings about the mobility of the labor force and change in the hiring system, is change in the pension system. The traditional pension system was basically a separation type, and in some cases the level of the pension was determined in accordance with one's salary immediately before retirement. Consequently there were cases where, when one considered the pension, it was more advantageous to stay in the same company even if the starting salary was low.

But now, it has reached a point at which even the mutual aid pension system of public service workers and the private-sector welfare pension system determine the pension level by average lifetime salary. When that is done, whether it is good to stay at one place for a long time also changes, so a worker's life planning also changes quite a bit, and it is also conceivable that it accelerates the collapse of life-long employment, the system of advancement by seniority, and the mobility of the labor force.

Takaoka: In the case of service industries there are also the differences in management sensibility and the low level of specialization, so it is a fact that mobility of the work force is fairly high compared with manufacturers. But in the midst of developing such new management strategies as the response to globalization, it has become increasingly difficult to secure excellent staff. Consequently, I think that in the future it will become necessary to fundamentally reconsider the personnel system too.

Aoki: On the other hand, I think that one of the tasks which Japanese enterprises will confront in the nineties is the response to globalization which you just mentioned. Globalization is exerting a great impact on Japanese- type management through such things as localization of Japanese enterprises, but what kind of changes do you expect in the future?

Takaoka: We in the retail industry have, by nature, a strong domestic flavor, but expansion overseas and capital links with foreign enterprises are progressing gradually. Recently, the fact that Yaohan Department Store Co., Ltd. moved its headquarters to Hong Kong, and is trying to change its management system is attracting attention.

In the case of the retail industry, I do not think there will be the so-called multinational-type development, but it is clear that the very actions of enterprises globalize, and I think that the point of how management systems will change in response to such changes will become an important problem in the future, too.

**Globalization Takes Time**

Moriya: I think the fact that the very trend for development of enterprise information networks is becoming global is important.

Even if we say that in the growing importance of information, from 1970 to the beginning of the 1980's the hardware side was central, but of late the emphasis has shifted to preparation of an information infrastructure which includes software. And after this, information networks, too, will expand not only domestically, but internationally, and information exchange systems will also become global entities.

But even so, the course of globalization of Japanese enterprises has just begun, so I think it will not become something which is also recognized internationally and has its feet on the ground unless they spend a considerable amount of time.

If we take the example of IBM as a model, IBM built a base in Europe in 1927. That has now grown to 15 production bases and also nine R&D bases, but it took a long time before IBM was accepted in Europe. For instance, in the 1960's there was a movement opposing the very matter of foreign investment in France, and the kind of campaign against multinational enterprises which is represented by S. Schlevel's [shureberu] "The Challenge of America" was also developed. In the 1970's, administrative regulations for multinational enterprises were established by the United Nations, and in the latter half of the 1970's it was even being said that Europe's high unemployment was caused by the actions of multinational enterprises. Entering the 1980's, by participating in the "Esprit Plan," IBM came to be recognized in Europe for the first time.

In this kind of history of IBM globalization, let us look at the record of Jaque Maisonrouge, who was the first Frenchman to become senior vice president of IBM headquarters, after entering IBM France in 1949, he served as department chief in IBM Europe and as vice president of IBM's World Trade Company, and in 1964 became president of IBM Europe. Over such a long period of time, the adaptation of people to the locality progressed, and IBM, too, was recognized as a European company.

That is, in the case of globalization of Japanese companies, not only production bases, but R&D bases and adaptation of people to the locality will probably go on advancing, but when you consider that even an international enterprise like IBM needed a long time, I think it is necessary to resign ourselves to the fact that globalization of Japanese companies will take quite a long time, and settle down and advance step by step.

**A Necessary System of Staff Education**

Hanada: When we look at the overseas penetration of Japanese enterprises from the 1970's into the first half of the 1980's, I think the biggest point was how to operate overseas production bases efficiently. This means that both in Southeast Asia and in advanced countries the aim was to ensure the Japanese-type doctrine centered on the shop floor. I think that was fully possible if, so to speak, Japanese enterprises modified slightly the know how they had accumulated up to now.

But when one progresses from mere adaptation to a locality to globalization, will it not become impossible to make full use of the know how in such aspects as M&A, strategic cooperation with foreign enterprises and employment of local people? As to whether Japanese enterprises possess effective means in confronting this kind of new situation, I think such is not necessarily the case.

Therefore, one thing, as Mr. Moriya said, is that it will probably be necessary to learn from the experience of European and American multinational enterprises, and go on creating systems for nurturing staff.

Another is the fact that from among Japanese it is necessary to secure, not international superintendents or supervisors, but international business managers. To be sure, even now the strategic departments of Japanese enterprises are launching such international projects as strategic cooperation with foreign enterprises and M&A, but it is not being studied as far as the question of what kind of staff to send in. There appear to be many cases in which there is no one to send in even if a project is completed, so the person who created the project has to be sent in.

Thus, globalization is rather troublesome for Japanese enterprises, but actually they must push ahead with globalization, so I suspect there will be a fair amount of confusion in the next two to three years. However, moves have emerged of a kind which can become models for other enterprises in terms of advancing globalization. These include Matsushita Electric's global personnel organization and the operation method of Sony's European base.

Aoki: Thank you very much for giving so much of your time today.

(material gathered on 30 March)

## * Distribution System, Firms

*902A0193C Tokyo ECONOMY SOCIETY POLICY in Japanese May 90 pp 14-17—FOR OFFICIAL USE ONLY*

[Article by Hitotsubashi University professor emeritus, Kenichi Miyazawa]

[Text] **1: Perspective and Starting Point of Discussion**

In the case of trying to make a critical study of the special characteristics of a distribution firm, I think it is vital to consider in particular its relation to the entire distribution system. This is because the distribution market

which the firm confronts is different from the finished-type market for each single type of good which is seen in the manufactured product market, and possesses the character of a connected type market (chain-type market) in which a number of isolated markets are combined as places to connect production and consumption. This lends the distribution market special characteristics which cannot be satisfied by the ideas of traditional economic analysis, which is centered on objects and finished-type markets. Furthermore, originally in economics the producer and the consumer carried out transactions directly, and so distribution appeared to be transparent. Even if this is permissable as a simplification for the purpose of establishing a principle, it invites in the evil of simplification which limits the range of the principle. Consequently, in order to handle the distribution problem, it becomes essential to restore the intermediate process, and establish systematic thinking as its base.

There is another point, a matter which should be heeded. It is also rare for the distribution problem to have attracted general interest as widely as it does today, but behind that are two circumstances on different levels. One of them is that Japan's distribution system is about to enter a period of great change. The distribution system is now under three great currents: rapid strengthening of the yen and internationalization, development of information networks and diversification and personalization of consumption, so our future course is being sought out. The second is the fact that Japan's distribution system has been exposed to criticism, with a large foreign-domestic price difference being recognized, and so on. Japan's response is being called into question fiercely, with criticism from abroad and demands to abolish the closed nature of the market.

In the present article, I shall begin by first summarizing the special nature of the Japanese distribution firm in its relationship to the entire distribution system, and next evaluate this within the above-mentioned currents.

### 2: Independent Action and Trade Practices, System Environment

The entire distribution process is a three-sided operation made up of the dealer, the consumer and the system environment. Consequently, viewing the problem from all three sides, and summarizing it, is a shortcut in understanding it.

First let's look at the dealer, and the relationship among the three channels for distribution—manufacturer, wholesaler and retailer. Japanese manufacturers use the distribution-channel intervention type; they have a strong interest in trends and a product's end retail price, so they adopt various strong sales policies. On the other hand, the distributor relies on the maker, so to put it in a rather schematized manner, wholesale distribution is like doing sales business for the manufacturer, and retail distribution depends on the wholesaler, so there is a predisposition to interdependence with manufacturers. To put it plainly, Japanese distributors are lacking in economic "independence." This communal distribution system has produced diverse commercial practices. Out of this background the development of *keiretsu*, the quotation system, the returned-goods system and the rebate system has taken root. A "communal, profit-allotting" distribution system was formed with the manufacturer guaranteeing a distribution margin to the distributor, and the distributor following the manufacturer's established price. It has positive aspects as a rational choice: economy of transaction cost, formation of "trust" and development of continuing and stable transactions. But, on the other side of the coin, there are also many minus aspects: a change away from written contracts, and hindering competition. It encourages price increases because it passes on the burden of risk such as obstacles to the entrance of new products, and fixed prices which are stabilized at a high level. To this are added seller monopoly by the import general agent system and a policy of price discrimination by export firms, and they become factors to intensify the foreign domestic price margin.

On the other hand, small shopping zones and the practice of purchasing small amounts of many varieties at frequent intervals make up one factor which supports the small, detailed, multistage nature of distributors. Consumer selection tends to be a type which is oriented to brand more than price, which attaches importance to non-price factors, and which attaches more importance to external appearance and values supplemental service more than the content of the product. By rights the "range of choice" expands more when service is separated, but Japanese consumers like service included. Supplemental service cost money, and external appearance is also a high cost factor. This pushes up the price and becomes another reason why prices become stabilized at a high level. Also among consumers there are those who seek the lowest priced product, and like service to be separate, but their needs have not been met, and the norm is a package-type, all-in-one type of price. Furthermore, the expected behavior of the consumer, that is, the behavior which demands the same price at any time and any place if it is the same merchandise, is another basis for hard-and-fast price rules.

On the system side there is every type and every manner of official control. Beginning with the "Large-Scale Retail Stores Law," the existence of import controls on trade goods and price controls and individual-product controls on non-trade goods distorts market operation and heightens opacity. In addition to all sorts of regulations by law, there are regulations based on rules outside of laws, such as notices, and administrative guidance. Furthermore there are super-cargo regulations (including opening of large stores) which are enacted by local governing bodies. A manifestation of the irrationality and inefficiency resulting from regulations is shown by the fact that in spite of the price of non-controlled items dropping along with the strengthening of the yen, the price of controlled items remained on the same level.

There is no room for doubt that all kinds of controls distort market mechanisms and have led to stabilization of prices at a high level.

If we focus on the problem of "the domestic-foreign price difference," the problem of land prices is a factor, in addition to the strong yen. The domestic-foreign price difference has many causes, but at the root, most are connected to the above-mentioned three areas. However, there is one more point, in order to find out why the irrational, unsuitable side of the domestic-foreign price difference has continued to exist, one is required to add the following fourth reason. Entangled in the controls, practices and intervention are special interest groups, favorable voting constituencies for politicians, and the compartmentalized administration of bureaucrats. The entanglement of the political, economic and bureaucratic vested interests is intensifying the opacity on both the transaction side and the price formation side. Consequently, one cannot overlook the point that it has become an indispensable condition that political determination to "eliminate vested interests" accompany correction of the irrational aspects of the domestic-foreign price difference.

### 3: The Tide of Reform and the Impact on Enterprise Behavior

In this way the domestic system of controls and trade practices have become strong impeding factors which run counter to distribution reform. What kind of impact do the three currents, mentioned at the beginning, which accelerate distribution reform, exert on this? The issue is what are internationalization, development of information networks and diversification "to distribution"?

In the first area—internationalization—in addition to the already-mentioned criticism of the domestic-foreign price difference, we can cite the multiplication of import routes by means of such things as parallel importing, development importing and reverse importing as typical examples. That trend is operating to make distributors establish importing as the core of their management strategy, and to move them in the direction of having to consider distribution from an international viewpoint. On the other hand, it is operating to make consumers strongly interested in buying merchandise at appropriate prices, and working to move them from a traditional consumer behavior, which inclined toward quality and service, and to strengthen consumer behavior oriented toward emphasizing price.

In regard also to the second area, development of information networks, if we narrow it down to two points we can cite a change in the character of the distribution industry and progress of interindustrialization. Up till now the distribution industry has been considered a location-type industry, but in the future it will have to strengthen its character as an information-type industry which can respond to needs by skillfully attracting information. Meanwhile, because of the progress of interindustrialization, the retail industry will strengthen its orientation toward manufacturing, manufacturers will strengthen their orientation toward consumption, the wholesale industry and distribution industry will strengthen their orientation toward expansion of mediation service and companies in the VAN [value added network] industry and the finance industry will strengthen their orientation toward becoming members of the distribution industry. This will lead to an acceleration of "interindustrial competition." There is seen a shift in the pattern of enterprise activity toward pursuing economy and this is important as a common background, and I will discuss this later.

In regard to the third area, diversification of consumption, we can probably concentrate on two points—a shift of the consumption unit and a shift in the emphasis of the type of merchandise selection. A change in the base will progress from household-unit consumption, in which the housewife holds the purse strings, to individual-unit consumption, in which each constituent member of the household spends money. Moreover, the criterion for choosing merchandise will also shift from "things" to properties, and from properties to aesthetic qualities. That change will, on the one side, accelerate the diversification of business conditions in the distribution industry, and on the other side, will introduce a new competition factor into the relationship among the three entities of merchandise quality, unit and pricing.

To progress, the above three areas will be accompanied by a larger undercurrent. In the first, internationalization, internalization of a "strong-yen economy" will operate, a shift from domestic-type to multinational type enterprises will continue, and in industry a large transfer of resources from export industries to non-export industries will be seen. In the background to the second, the development of information networks, there will be a change in the nature of competition, and a shift in the pattern of pursuing economy. In the background to the third, the diversification of consumption, there will be transformation of the family, a shift in lifestyle, and generation of a senior-citizen market in an aging-society. Concerning what was written earlier, the point that it is a trend with these undercurrents is important.

### 4: Responses to Development of Distribution Information Networks

Adapting to this new current, new responses have been put in motion in distribution. Along with the shift in the consumption unit, increased importance of aesthetics in selection of merchandise and the maturing of markets, the direction of production and distribution of many varieties in small volume progressed. The result was that the existing system, which was centered on mass production and mass distribution, ceased to be able to cope, so a new distribution system was formed taking advantage of information and communication mediums. It is the "distribution information network," and the forms which have evolved are diverse: the retail-industry-led type, the wholesale-industry-led type, the manufacturer-led type, the agent-for-receipt-and-placing-of-orders

type, and so on. The models which are used freely as a means to develop networks for all sides of such commercial distribution, physical distribution and capital distribution are the POS [point of sales] system and the VAN system. They have come to be widely known, but let us pin down the character of the problem by summarizing their important points.

The POS system is "merchandise information control" which uses an optical-type automatic-reading cash register to collect, record and store sales information for each item of merchandise at a retail store. The company analyzes this merchandise database, grasps the data on lines that sell well and sales factors "on the single item level," and is able to cope with assortment of goods and problem reduction of inventory. In order to make it a more comprehensive distribution information system, firms connect the POS with "customer information control" and link it to customer database. For example, they link it to the credit authorization system, that is, the online system which checks the credit state of a customer's credit card, and approves the sale or provision of merchandise and services based on credit. Moreover, they gear it to such subsystems as store equipment and devices.

The VAN (value-added network) is a communication network service which not only disseminates information, but adds value by processing and treating information before sending it out. It was produced by the information processing function of computers and telecommunications functions being linked indivisibly. The special character of distribution VAN lies in the fact that it is a communications processing system which makes possible "exchange of information including the placing and receipt of orders" by linking producers, wholesalers, retailers, financial institutions and other related firms via a third person (the VAN company) by quickly and accurately processing and integrating the vast number of separate items of information which are generated at each stage of production, distribution and consumption. By using it distributors make possible a way to increase profits while maintaining independence, by, for example, responding to small-lot orders and realizing blanket settling of accounts in place of individual settling of accounts. Furthermore, when the standardization of POS advances, its gearing to distribution VAN will also be strengthened.

The problem is the degree of its penetration. The initial-term investment required to introduce the system, system control, and the securing of human resources which can put it to practical use constitute hurdles which have to be crossed. Elimination of information concentration and formation of information gaps in that process also constitute problems. In the response while confronting these problems, there is, of course, enough cause to accelerate it. It is the shift in the pattern of economy which is being pursued; I shall discuss it in the next section.

**Information Networks and "Economy of Network"**

What supported the mass distribution and mass production of one generation ago was the pursuit of "economy of scale," but, entering the era in recent years of small-volume production and distribution of many varieties, the emphasis shifted to the pursuit of "economy of scope" by diversification of operation. But after the information age, along with further shifting to the information network age, a situation will open which should be called pursuit of "economy of network." In the following I will extract the causes for the shift of emphasis in the pursuit of economy from scale to scope to network.

To begin with, management diversification indicates expansion into product fields different from those of one's existing products as a company's management strategy, and that changes will also be produced in the business management system, and if we replace this management analysis term with an economic analysis term, it corresponds to "economy of scope." "Economy of scope" is a generalization which makes it possible to analyze economic activity consisting of production of multiple goods and multiple activities, and indicates the benefit of diversification of business. It works out because it is a time when the cost of handling multiple varieties together at one firm is lower than the sum total of the cost of each firm respectively producing and handling one variety of merchandise. Why is that kind of benefit generated? Its basis is the fact that in the process of manufacturing a given product there are included "common" production elements which can be diverted for the production and practical use of other products without requiring virtually any cost. Information, technology and know how are important as examples of that kind of common production element.

But now we have shifted from the information age to the age of information-network development. Accompanying that, the pursuit of economy changes so as to include a still wider field of view. In other words, it can be said that the situation has opened in which "economy of network" is pursued not by a single firm, but multiple firms linking with each other, and setting up a network among the independent firms. Economy of network indicates, not only the size of the scope and the width of the range of one company, but the giving of full play to synergism and the raising of complementary effect by a multiple number of firms interconnecting and linking the information and technology/know how that each firm possesses. That is, economy of network is not only diverting in a diverse manner the internal resources of one's own organization for other uses as "common" elements, it goes beyond that to mutually utilize as "common" elements the external resources possessed by other firms and organizations through the organizational interlinking of companies with each other. And it is a matter of realizing by that means the putting to practical use of a new economy in the two aspects of investment and production: "reduction of transaction cost" and

"internalization of external effect" (for details see Kenichi Miyazawa, *Interindustrialization and the Growing Importance of Information—the Impact on Industrial Society* Yuhikaku, 1988. Kenichi Miyazawa, *The Economics of System and Information* Yuhikaku, 1988).

One reason why the economy of network produced by the joining together of a network of multiple companies became important, rather than pursuing the merits of scale and scope by a single company, lies in two areas—one cannot respond adequately to the new situation, with abundant change, just by relying upon the "internal resources" within a company and an organization, and a domain for activity has been generated which cannot be dealt with by one company alone. It appears to have reached the point where jointly making use of the "external resources" possessed by other companies and organizations is required in order to clear this limitation.

**"Interindustrialization," Distribution Firms and Distribution Policy**

Behind the birth of the shift from the response of diversification based on pursuit of the economy of scale to the response of interlinking of independent companies and organizations based on pursuit of economy of network, there lies the progress of interindustrialization which was mentioned above. To define it anew, we can stipulate that "interindustrialization" means that the boundaries of "markets," which have, in terms of common sense, been considered to be the basic unit of economic activity, have been shaken, and a mutual crossing over of the fences between industries and types of industry has become active, so new competitive relationships and cooperative relationships have been generated. And another important point is that a domain of activity with which a single company cannot cope has been newly produced. The terms "fusion" or "fusion of industries" are also sometimes applied as other expressions for indicating this kind of exchange activity among different industry types. However, the essence of the situation is not only the aspect that fences have become lower, and that industries are melting into each other, the point that it is accompanied by a tense relationship of mutual competition is important, and that is included in the meaning of the word "interindustrialization." Interindustrialization and pursuit of economy of network in an information network society is not limited to the distribution industry; it is seen widely in the general company activity of the present. But in the case of the distribution industry in particular, because of the distribution market's nature as a "chain-type market," which I mentioned at the beginning, it appears in a form peculiar to itself.

Today the number of wholesale and retail stores has begun to decline after its trend of increasing up to now, and the decline is conspicuous for those of small scale. Bipolarization has progressed among small and medium distributors, and they are dividing up into the occupation type and the enterprise type. Whether a large store or a small or medium store, what is required now is a review of business practices in response to internationalization, the growing importance of information, and the accumulation of management resources. On the other hand, in terms of policy, the devising of a distribution policy which accelerates this is essential, so it is necessary to accelerate the sorting of consumer information, and the transmission of information to the production stage, and to link it to the securing of consumer benefits. The requisites for that are: firstly, the abolition and relaxation of regulations "in a form which is not swayed by vested interests," and an alliance with promotion of the opening of stores and entering of markets, the assortment of merchandise and the establishment of prices. Secondly, a conversion of policy from the idea up to now of protecting distribution, to thinking in terms of promoting access to the distribution market. It is precisely this double demand which is the policy requisite for rebuilding an open, competitive, consumer oriented distribution system.

## * Subcontracting Methods

*902A0193D Tokyo ECONOMY SOCIETY POLICY in Japanese May 90 pp 18-22—FOR OFFICIAL USE ONLY*

[Article by Aoyama Gakuin University professor Tetsuo Minato: "The Relationship Between *Keiretsu* Transactions and the Changing Face of Subcontracting"]

**[Text] Overseas Interest in the Subcontracting Production System Is High**

It can be said that Japan's subcontracting production system is an entity in which envy, admiration and criticism are mixed together. A close relationship of continuing transactions with a limited number of parts makers, which is seen in typical form in Japan's automobile industry, is one of the trade practices for which correction is being demanded in the SII talks as an exclusionary *keiretsu* transaction. On the other hand, over the past few years U.S. auto makers have commissioned consulting firms to thoroughly research the Japanese-type system of supplying parts, and are enthusiastically recommending its introduction. Industrial circles of the EC countries, too, are trying to greatly reduce the number of suppliers who do business, and to firmly establish long-term, close-adhering relationships with a small number of firms they deal with. This March as well, executive staff members from EC country firms came to Japan to study Japan's subcontracting production system, and I, too, was in charge of one part of the lectures. The greatest mystery to them was "Why is it possible for Japanese parent companies to control subcontracting firms which are not even their subsidiaries?" According to their thinking, for a company to be able to enter into an outside company, and go so far as to intervene in its production methods and price formation was inconceivable unless it was a subsidiary with capital participation by the parent company. But in reality,

subcontractors in which Japanese parent firms are participating even slightly in capital are only less than 20 percent, and most subcontracting firms are receiving no capital participation or sending of staff from the parent firm.

In order to solve this mystery of theirs, one cannot omit, when explaining things, the historical process of the formation of the subcontracting transaction relationship, especially the transition in the relationship of dependence between companies.

**Table 1. Ratio of Firms Receiving Capital/Staff From Parent Firms; By Enterprise Scale (1981)**

| Year | Capital | Staff | Scale (people) | Capital | Staff |
|---|---|---|---|---|---|
| 1950a | 2.3 percent | 7.3 percent | 1-20 | 4.8 percent | 4.4 percent |
| | | | 21-50 | 11.2 percent | 14.2 percent |
| 1970b | 15.0 percent | 15.2 percent | 51-100 | 18.8 percent | 26.1 percent |
| 1973b | 17.1 percent | 17.1 percent | 101-300 | 29.3 percent | 41.5 percent |
| 1976b | 18.4 percent | 18.4 percent | over 301 people | 44.4 percent | 62.4 percent |
| 1981b | 22.9 percent | 24.1 percent | | | |
| 1987b | 18.7 percent | 25.6 percent | | | |

(Data) a: Small and Medium Enterprise Agency, "Position and Problem Points of Small and Medium Enterprises", 1950, p 111; b:Research Department, Central Bank for Commercial and Industrial Cooperatives, "Study of Actual Situation in Machinery-Related Subcontracting Firms", each year's edition.

### Resource Dependence and Control

The attempt to elucidate the mechanism of generation of power between enterprises from the "resource dependence" relationship between the two enterprises has been developed by such social scientists as Richard M. Emerson, Peter M. Blau and Howard E. Aldrich.

Transactions between companies like subcontracting transactions basically mean using the management resources of an outside company via the transaction. And it becomes a matter of accepting influence and control from the firm one is dealing with in accordance with the scarcity of the management resources possessed by that firm and the degree of one's dependence on those resources.

The reason why the parent firm maintains stronger control over the subcontracting firm in the Japanese system of subcontracted production than in the countries of Europe and America is because throughout the course of its development the subcontracting firm has depended on the relatively scarce management resources possessed by the parent firm. Consequently, by grasping the changes in the dependency relationship of the parent firm and the subcontracting firm in regard to management resources, it is possible to clearly grasp the changed form which is being born at present, along with the generation and development of subcontracting business relationships.

Now, if we take the degree (strong/weak) of control which the parent company uses toward the subcontracting company to be the vertical axis, and take the extent of bargaining power which a subcontracting firm possesses in regard to a parent firm to be the horizontal axis, we can obtain four dimensions like those in Figure 1 [not reproduced]. I shall make clear from this framework the orientation of long-term changes in the subcontracting production relationship.

### Phase I: An Unsteady Business Relationship

The various special features of Japanese-type subcontracting production were virtually unobserved until the beginning of the 1930's. According to "A Survey of the State of Outside Orders for Machines and Tools," in 1933 the proportion of total production occupied by the sum of outside orders and purchases of manufactured goods averaged 23.1 percent, and the larger the enterprise the higher the degree of vertical integration (in-house manufacture). Takuji Omiyama, who was an official of the Ministry of Commerce and Industry, describes the situation of that time as "large factories are carrying on integrated work on various items by setting up virtually all kinds of production processes in their own factory, at certain times even as far as raw-materials production processes" [1]. At that time linked relationships between large firms and small and medium enterprises were rare, as seen in many developing economies, these two divisions were in a state of division. And direct connections between parent companies and subcontracting firms were rare, so most transactions were indirect transactions via brokers who took high-rate commissions. At this stage, large enterprises were negative concerning the technical possibilities of small and medium enterprises, so they were in an unstable business relationship in which they would place orders temporarily for low-technology processes in periods of business expansion. Consequently, parent firms did not have the will to actively try to control subcontractors, and the contractors' side, too, did not have the kind of accumulation of resources which would become transaction bargaining power in regard to the parent firms.

### Phase II: A Dependent Relationship

When it got to the latter half of the 1930's it became a quasi-wartime setup, demand in regard to military machine industries expanded rapidly, and it was ultimately impossible to cope with the swollen military

demand with in-house manufacture by large enterprises, so from the end of the 1930's to the beginning of the 1940's a policy of promoting subcontracting manufacturing industries came to be adopted. But transfer of technology from the parent firm to the subcontractor was impossible in the indirect, unstable business relationship which had existed up till then, nor could a rapid expansion of productive power to cope with the swelling military demand be expected, so it turned out that in December 1940 (15th year of the Showa reign) the "Outline of Improvement of Machine and Iron and Steel Products" was sent out as a notice, and an attempt was made to improve subcontractors and place them under the exclusive control of specific parent firms.

As symbolized by the fact that the number of automobiles produced in 1941 was a mere 4,300 in Japan, compared with 4.8 million in America, an extreme difference in productive capacity existed between Japan and America. In order to make up for this kind of extreme lack of productive capacity, not only small and medium enterprises, but even very small industries and ordinary traditional industries were mobilized by the war supplies industry sector. These subcontractors had to rely upon parent firms for all equipment, technology and markets. The small and medium enterprises of that time, and particularly the managers of very-small enterprises, who had the temperament of artisans, did not like to be subordinate to large enterprises as subcontractors, but because of control of production materials, it was impossible to receive an allotment of materials if they did not make clear the ralationship of receiving and placing orders.

At that time the turning of small and medium enterprises into subcontractors was studied in America, too, but "the Army and Navy and major contractors were all negative toward the plan, and they asserted that high-quality products would be procured from medium and large enterprises quickly and at a 'proper' price." Actually, even at the peak time of, 1944, purchases from companies with less than 100 employees was only 5.5 percent of all military supply contracts [(2)].

The change to a subcontracting production system setup which took place in Japan under the wartime economy did not progress according to the government's intentions, but by demonstrating the production efficiency which is the result of the division of labor among enterprises and, in addition, the possibility of technological development of small and medium enterprises, it became the prototype of the subsequent system of subcontracting production and it became the prototype for the future subcontracting production system

Because of the disorder of defeat in World War II, large enterprises lost the reserve power needed to control subcontractors, and because of the lack of goods, the consumer goods market entered a state in which "if you could make it, you could sell it." At this time small and medium enterprises escaped from the state of dependence on large enterprises, and temporary independence was seen. But when it got to the 1950's, the technology gap between large enterprises, which had actively introduced production technology and business administration technology from overseas, and small and medium enterprises, which lagged behind in introduction of technology, widened. Furthermore, along with expansion of productive capacity, competition for markets also intensified, and large enterprises also pushed ahead, turning distribution channels into *keiretsu*, so it once more became necessary for small and medium enterprises to depend upon large enterprises, which are the parent enterprises, for virtually all the strategic management resources of capital, technology and markets. Because of this strong dependence on the management resources of the parent company, subcontractors were subordinate to the strict control of parent companies, and had virtually no practical bargaining power. If we investigate the period when the management gap between large enterprises and small and medium enterprises expanded, it coincides with the period of introduction of foreign technology. Consequently, it can probably be said that the formation of the "dual structure" was due more to accessibility to advanced technology and the difference in competitiveness in product markets as the result of the technology gap, than to the difference in capital intensity.

**Phase III: A Cooperative Business Relationship**

Upon entering the 1970's the Japanese economy changed greatly from an economy with insufficient capital to an economy with a surplus of capital. Because of this, it ceased to be difficult for small and medium subcontractors to raise capital by their own power. The accumulation of technology by contractors also advanced, and insofar as it related to the technology in their specialized processing field, their dependence on parent companies decreased. However, in this period new technologies with a high degree of innovation, such as microcomputers, appeared in succession, so it was difficult for small and medium enterprises to grasp this kind of fundamental technological innovation accurately and digest it independently. Furthermore such macroeconomic changes as fluctuations in international currencies were also severe, so the sense of the existence of parent firms as "the last thing that could be depended upon" was strong. Furthermore, it was still more difficult for subcontractors to develop markets independently, so a condition of strong dependence on the market aspect continued. At this stage a mechanism which created still more subcontractors functioned, so subcontractors constantly faced a state of latent, fierce competition. Therefore, parent companies have basically maintained a strong initiative, and have exercised strong influence in setting prices.

But accumulation of the management resources necessary for independence and acquiring customers has progressed even on the small-and-medium-contractor side, so the need to obey the one-sided control of parent companies even to the point of running counter to one's own will, has disappeared. And parent companies which

are lacking in technological power and growth power have weakened their power to control subcontractors.

This stage of cooperative subcontracting transactions, particularly the first one-half of Phase III, in which subcontractors, while developing the accumulation of management resources, depend partially on the resources of parent companies, and the parent companies maintain controlling power, is a period in which an inter-enterprise organization, the subcontracting production system, could present very high organizational efficiency. Because while maintaining high production technology and quality control technology on the subcontractor side, they still accepted control by parent companies as the organization leaders. Moreover, at this stage the business relationship was comparatively stable, so it was possible to enjoy the various merits which long-term continuing transactions produce. The stabilization of transactions increased trust, and developed a business relationship of expansion of investment in joint development and in assets exclusively for a particular transaction, etc. In the period from the 1970's into the first half of the 1980's, most Japanese industry had reached this stage. The result was that it was possible to gain the benefits of high division of labor among companies, and it increased by great strides the international competitiveness of Japanese industries, and particularly machine industries, which depend heavily on the subcontracting production system.

**Phase IV: An Independent Business Relationship**

Since the latter half of the 1980's the number of newly opened small and medium enterprises have not exceeded the number that have closed. Furthermore, the tightness of the labor force supply and demand which extends across the entire economy has become especially serious for small and medium subcontractors, and it has limited the expansion of small and medium subcontractors' supply capability. Therefore it has ceased to be as difficult as it was earlier for subcontractors to change by diversifying their customers, etc. The premise of subcontractors' infinite flexibility of supply, which was behind the strong bargaining power of parent companies up to now, crumbled, and the fact that parent companies have depended on such management resources as subcontractors' production capacity in the same way that subcontractors depend on parent firms has become obvious. The fact that large enterprises secure staff in a monopolistic manner, and small and medium enterprises confront an extreme shortage of help is, in micro-terms, a serious management problem to small and medium enterprises. But when we look at it in macro-terms, it is probable that the labor-force shortage and the lack of staff to support creation of small and medium subcontractors contributes in the direction of increasing the bargaining power of small and medium enterprises vis a vis parent firms by limiting the supply capability of the small and medium enterprise sector.

In point of fact, subcontractors' accumulation of management resources has progressed considerably, and in many subcontractors that accumulation has exceeded the critical point necessary for independence, so subcontractors' diversification of customers has been realized.

According to the survey results of MITI's Small and Medium Enterprise Agency's "Report on the Seventh Basic Survey of the Actual Condition of Industry (news flash)" (end of December 1987), in contrast to the fact that the total number of small and medium manufacturing firms was only 690,000, a 2.6 percent decline compared with the previous survey 6 years earlier, the number of small and medium subcontractors was 390,000, a large decline of over 70,000, over 16 percent as a proportion. The result is that the ratio of small and medium subcontractors has fallen from 65.5 percent of the whole to 56.6 percent. Next, a fluctuation in figures which suggests a big change was also recognized in a research report on machine-related subcontractors (the research was done at the end of June 1988) entitled "Aiming at Construction of a New Division-of-Labor Structure," which the Research Department of the Central Bank for Commercial and Industrial Cooperatives published last year. That is, the ratio of exclusive subcontractors who depend on a single parent firm for the entire amount of their sales has begun to decline, and this time, at 27.5 percent, declined by almost 5 points compared with the last survey; on the other hand, the average number of parent firms per contractor has almost doubled, from 6.5 companies to 10.3 companies. These figures all show clearly that the Japanese subcontracting business relationship up to now, in which the degree of exclusive control was extremely high, has begun to change greatly (see Figure 2) [not reproduced].

Another factor which is stimulating the increasing independence of subcontractors is the existance, since the strong yen of 1985, of signs that the relationship of mutual trust (accumulation of trust) which up to now lay behind the business practices between Japanese enterprises, will weaken.

In order for the business relationship between companies to progress smoothly, the firm establishment of a relationship of mutual trust becomes an important prerequisite. It is particularly so in the case where equipment necessary to the transaction is an exclusive asset like machines which cannot be diverted for use other than that specified in the transaction. The high development of division of labor among companies in Japan is supported by the accumulation of abundant "trust," and the kind of socioeconomic framework, that is, social norms, which stimulate the maintenance of a relationship of trust, has been established. And because of such social norms it was possible to stabilize transactions and control relations between companies smoothly, even without depending on legal authority.

However, because of the sudden advance of the strong yen after the autumn of 1985, pessimistic views on the future of the Japanese economy are dominant, and in large enterprises which depend on exports to a large degree a daring reduction in contractors was pushed

through. Moreover, exporters are being strongly requested by the administrative authorities to draw up and implement an "Import Expansion Action Plan," for the purpose of expanding imports of parts. In this kind of situation, subcontractors' confidence in parent firms has declined markedly.

It is not difficult to imagine that the decline of confidence in the future placing of orders by parent firms has become a large motive for subcontractors' diversification of the firms with which they do business and increasing independence.

The growth in the number of firms with which they do business has also been promoted by the technical innovation of the evolution of computer-based information networks. This is because trade practices among Japanese companies, which do not depend on written contracts, and have a wide margin for adjustment after the fact, required a grasp of a vast amount of detailed information and increased the information-processing burden. The risk-distribution and special chracteristics of information processing in this kind of inter-enterprise transaction, along with the parent company and subcontractor's relationship of unequal dependence, has, up to now, regulated the structure of subcontracting transactions. However, the evolution of the increasing importance of computers increases the efficiency of grasping information in inter-enterprise transactions and reduces the information-processing burden, so it is possible to economize on transaction costs even if one does not depend on such conventional means as limiting the firms with which one does business. Furthermore, because of the rapid spread of fax, the recordability of information has increased compared with the exchange of transaction information by telephone, and has contributed to the reliability of business contracts.

### Future Outlook for Subcontracting Transactions

It appears to me that the trend toward increasing independence of subcontractors will go on becoming stronger and stronger because of such things as accumulation of resources within the management of small and medium enterprises, changes in the economic environment and technological innovation. At a stage when this kind of increasing independence of subcontractors and decline in parent firms' power to control progress simultaneously, parent firms need to maintain and provide more strategic management resources that are scarce for subcontractors than they have up to now in order to attract subcontractors to them for the future. Should parent firms be unable to provide resources which are attractive to subcontractors, they will no longer be able to keep subcontractors within the framework of their production system, and it will produce a reverse selection of parent firms by subcontractors.

As the relationship of unequal dependence based on the difference in existence of management resources which existed between parent companies and subcontractors dissolves, it is probable that transaction bargaining power will draw closer to something which is equal. And if the business relationship becomes completely equal, and subcontractors receive no control whatsoever by parent firms, it will become, not so much a subcontracting transaction, as an outside-order transaction in the narrow sense. If at this stage the parent firm tries to place an outside supplier under its own control, it would probably require such legal ground as capital participation or buyout, in the same way as Europe and America. In any case, the rise in subcontractors' bargaining power because of diversification of customers and improvement in the relationship of unequal dependence signifies at the same time a drop in the power of parent firms to control, so the system of subcontracting production as an inter-enterprise organization does not possess as strong a cohesiveness as it did at the previous stage. Consequently, the organization leader's power to control is weak, so the fruits of organization-efficiency will probably have to decline unless a new paradigm is carried out which operates an inter-enterprise organization with a relationship of loose union.

But it is possible for large enterprises to maintain superiority compared with small and medium enterprises in such things as economy of scope, and a continuous business relationship accompanied by specific-asset investment is highly efficient. If it is not only beneficial to the parent firm, but can be held in common as being beneficial to the subcontractor too, it appears to me that a business relationship accompanied by loose control will continue for a fairly long time.

While the subcontracting business relationship of the nineties will take a cooperative business relationship as its base, it will probably go on increasing the companies which are in an independent business relationship. It is fairly difficult to predict today how fast the tempo of this shift will be, but I cannot believe that the conventional type of hierarchical structure of subcontracting transactions, which had a relationship of fairly strong union, will change at once into a free network type of transaction structure which is not accompanied by control. Rather, it is probable that, while taking a hierarchical structure as its base, it will become the kind of transaction structure in which the periphery will be surrounded by network-like transaction firms based on loose union.

The present article is a revised version of my article "Dependency Relationship and the Changing Face of the Subcontracting Production System", SHOKO KINYU, February 1990 issue.

### Footnotes

(1) Takuji Komiyayama, "Research on Japanese Small and Medium Enterprises," Chuokoronsha, 1941, p 41

(2) Harold G. Vatter, "The U.S. Economy in World War II", Columbia University Press, 1985, pp 57-60

## * Firms Seek To Move Forward

*902A0193E Tokyo ECONOMY SOCIETY POLICY in Japanese May 90 pp 23-27—FOR OFFICIAL USE ONLY*

[Article by EPA Research Bureau Business Statistics Research Division member, Nobuhide Matsuda: "Actions by Enterprises Aiming at a Fresh Leap Forward"]

[Text] How will Japanese enterprises go on promoting building of a production and sales system for many types of products, manufactured in small volume with high added value? This must respond to the change to more advanced consumer needs in an expanding prosperity centered on domestic demand which has existed since the end of 1986. Furthermore, how will they go on promoting global management against the background of the strong yen and increased trade friction? I shall introduce the results of the "Questionaire Survey on FY89 Enterprise Action" which surveyed management concerning basic management policy, the posture of their current position toward enhancing enterprise action, reconstruction of distribution strategy and unification of domestic enterprises with overseas, and an awareness of these problems.

(Note: "Questionaire Surveys of Enterprise Action" have been conducted once each year since 1961 by the Economic Planning Agency. Themes are selected in accordance with the economic situation at the time, and with the exception of the finance and insurance industries, all enterprises listed in parts one and two of the Tokyo, Osaka and Nagoya stock exchanges are surveyed.

The time of the current survey was January 1990, and 1,781 companies were surveyed; the number of companies which responded is 1,211, and the response rate was 68.0 percent.)

### 1. Management Environment and Basic Management Policy

To begin with, if we look at the macroeconomic environment which surrounds enterprises, 70 percent of the companies, the largest number, predict the rate of real economic growth for FY90 to be on the four-percent level, and it comes out to be 4.3 percent on average. And for the medium term as well, they predict average growth in the upper half of the three-percent level, and possess a bright outlook in the same manner as the previous survey. (Conducted in January 1989. Hereinafter the same). It is a bright outlook in regard to real growth in industrial-circle demand as well, with such things as the FY90 outlook being an average of 4.5 percent for all industries, and foreseeing a four-percent level for the medium term, too.

On the other hand, concerning the durability of the current expansion of business conditions, most companies make cautious forecasts for both manufacturing and nonmanufacturing industries after 1991, but it is forecast to at least surpass the Iwato boom (42 months; reached May 1990).

Concerning the U.S. dollar-yen rate one year from now, 80 percent of companies predict a rate from the Y130 level to the Y140 level, and on average it is about Y140, Y20 weaker for the yen than in the previous survey. In contrast to this, the profitable yen rate for manufacturing industry firms which are exporting averages about Y133. Since the exchange has fluctuated with a weak yen over the past year, almost 70 percent of exporting manufacturing industry companies are just about able to make a profit at the yen rate (Y145.1) at the time of the survey (January, 1990).

In spite of this recent trend of a weak yen, in regard to overseas local production, the outlook is for the proportion of overseas local production for FY89 of companies which are puttng overseas local production into effect (the proportion which the amount of overseas local production occupies in total production, which combines domestic production and overseas local production) to rise to a fraction of 10 percent, on average. And 40 percent of companies say that they will raise the proportion of overseas local production in the future as well, so it is possible to infer a shift from the earlier overseas local production for the purpose of evading the strong yen to overseas local production in a form which is based on a more long-term viewpoint, and which attempts internationalization.

Furthermore, in regard also to the ratio of imported articles of final-demand goods (the proportion which imported products occupy in the entirety of domestic sales), 30 percent of manufacturing industry companies and 60 percent of distribution industry companies say that they will raise the proportion of imported goods, so one can infer that they will very enthusiastically promote importing of manufactured products. This kind of expansion of importing of manufactured products will be a factor in easing commercial friction, and will be in response to the more sophisticated nature of consumption, so it does not appear to me that the weak yen will lead directly to a decline in desire to import manufactured products. But in both manufacturing industries and distribution industries, those enterprises are most numerous which cite "exchange-fluctuation costs" as a burden in importing manufactured products, so one can probably say that stabilization of exchange rates is a large factor in expansion of importation of manufactured products.

Next, when we look at the basic management policy of enterprises, in regard to the trend in plant and equipment investment for the next three years, more than one-half of the companies say they foresee an increase averaging about 10 percent or more per year in the amount for plant and equipment investment. And, reflecting the current sound domestic demand and shortage of staff, companies say that they will invest in "rationalization and labor-saving of direct sectors" and

in "building up the capacity of direct sectors," (51.5 percent and 51.0 percent respectively for all industries), and, on the other hand, say that they will also grapple actively with "strengthening of the research and development sector," which constitutes the driving force for a company's new capacity for growth (50.8 percent of all industries). Concern that the current lively plant and equipment investment could easily produce future oversupply has emerged in some quarters, but in manufacturing industries the weight of plant and equipment investment which is not oriented toward a direct buildup of capacity, "strengthening of the research and development sector" (65.1 percent) and "rationalization and labor saving in the direct sector" (65.0 percent) is greater than "building up the capacity of the direct sector" (54.5 percent), so it appears to me that there is little danger of oversupply. In addition, when investing in building up the capacity of the direct sector, they say that they have in mind the economic situation an average of "3.9 years" from now when studying it, and compared with the last three years the term has become 0.7 years longer, so it appears to me that it will go on becoming more stable in regard to changes in the investment environment.

Furthermore, judging from the fact that 80 percent of market-location type manufacturing firms say "we would mainly decrease domestic production," in the case of a sense of oversupply having emerged in the domestic market, and less than 10 percent say "we would mainly reduce overseas local production and export the excess portion of domestic production," it appears to me that in a situation of a domestic recession, there is little possibility that excess investment would spawn a new export offensive.

Concerning the attitude on employment for the next 3 years, the main reasons for employing staff in manufacturing industries were said to be "response to diversification and expansion into new fields" (57.1 percent), "response to development of commercial products" (54.6 percent) and "response to sound demand" (52.0 percent), and in nonmanufacturing fields, "response to sound demand" (72.5 percent), "response to diversification and expansion into new fields" (58.0 percent) and "response to shortening of working hours" (37.8 percent), and over one-half of firms in both manufacturing and nonmanufacturing industries said that they will increase hiring. In manufacturing industries the there appeared to be an attitude leading to investing in staff for research and development and diversification fields on a priority basis, and responding by investment in rationalization and labor saving for the actual production site. On the other hand, in nonmanufacturing industries, which are more labor intensive, there are limits to investment in labor saving and rationalization for sound demand, so an increase in hiring has become a more pressing problem.

**2. Enhancement of Enterprise Vitality**

At a time when a still more flexible response is required of companies accompanying the development of more advanced consumption, what kind of environmental preparation will companies promote in order to enhance company vitality by giving full play to the most important resource, the creative power of each individual member of the company's staff?

First of all, when we look at the aspect of working hours, in about 80 percent of manufacturing industries and almost 70 percent of nonmanufacturing industries the outlook is that three years from now they will shorten prescribed annual working hours by an average of something less than 40 hours and something less than 60 hours respectively compared with now, making the prescribed annual working hours about 1,920 and 1,910 respectively.

Although prescribed working hours will go on being steadily shortened in this manner, in both manufacturing industries and nonmanufacturing industries many cite "increases in the cost of labor" and "a situation of scarcity of staff (difficulty in hiring)" as important factors which hinder the shortening of working hours (Table 1). And both manufacturing and nonmanufacturing industries cite "implementation of investment in rationalization and labor saving" (87.8 and 64.0 percent respectively), "attempting to enhance productivity by improving the working environment" (52.9 and 55.2 percent respectively) and "attempt to rationalize disposition of staff" (51.5 and 62.5 percent respectively) as the main measures for responding to the first, and there are almost no companies that cite "control the rate of salary increase" and "pass the increase along in prices".

**Table 1. Factors Which Hinder Shortening Working Hours (Units: Company, Percent)**

| | Number of firms that responded | Other firms in the same industry have not implemented | Labor costs will rise | customers have not implemented | Are in a situation of scarcity of staff (hiring difficulty) | Other | No factors which hinder shortening |
|---|---|---|---|---|---|---|---|
| All industries | 1195 | 23.3 | 65.0 | 14.7 | 45.9 | 7.9 | 4.4 |
| Manufacturing industries | 781 | 22.4 | 73.9 | 11.1 | 44.6 | 6.5 | 3.7 |
| Materials-type manufacturing industries | 229 | 29.7 | 81.7 | 3.9 | 40.6 | 7.0 | 1.7 |

**Table 1. Factors Which Hinder Shortening Working Hours (Units: Company, Percent) (Continued)**

| | Number of firms that responded | Other firms in the same industry have not implemented | Labor costs will rise | customers have not implemented | Are in a situation of scarcity of staff (hiring difficulty) | Other | No factors which hinder shortening |
|---|---|---|---|---|---|---|---|
| Processing-type manufacturing industries | 305 | 16.4 | 73.8 | 8.2 | 51.8 | 5.9 | 4.6 |
| Other manufacturing industries | 247 | 23.1 | 66.8 | 21.5 | 39.3 | 6.9 | 4.5 |
| Nonmanufacturing industries | 414 | 24.9 | 48.3 | 21.5 | 48.6 | 10.6 | 5.6 |

Note: Multiple responses

Concerning measures for enhancing the welfare of staff, the increase in the proportion of responses for "introduction and perfection of a system of long vacations" in the next three years was striking. This is something which aims to refresh the mind and body by establishing in companies methods which emphasize working hard in order to provide time which can be used for extended vacation time even with a serious shortage of staff, so it appears to me that it is a manifestation of enterprise action which is seeking to secure staff. Further, the proportion of companies planning "new construction and renovation of single-worker dormitories" and "new construction and renovation of staff houses" in place of "raising housing allowances" and "introduction and perfection of a system of low-interest home loans," has increased.

Concerning measures to enhance staff morale, it appears that in the next three years along with increasing the relative importance of "implementation and perfection of external study and training," with "implementation of in-house study and training," which has formerly been emphasized, as the pillar, importance will be attached to measures which go on increasing the independence of the individual by actively carrying out "introduction and perfection of a flexible time system" and "delegation of power."

Concerning female staff members, in order for the enterprise to go on developing under the change to advanced consumption, it is necessary to actively make use of women's ideas and sensibility in management, so it is recognized as one of the important tasks in terms of enterprise management. Three years from now, both manufacturing and nonmanufacturing industries say that they will increase the the proportion of female staff members (the proportion which female staff members (excluding part-time staff) occupy within all staff (excluding part-time staff)), and the outlook is to increase both to about 20 percent. Furthermore, concerning the proportion of female management (the proportion which female management will occupy in all management (equivalent to deputy manager and above)) three years from now, 20 percent of the companies in manufacturing industries and 30 percent in nonmanufacturing industries said that they will increase the proportion of female management. The result of this is that, although the proportion, itself, would be small, with it going to 0.5 percent in manufacturing industries and 1.3 percent in nonmanufacturing industries, the outlook is for both to rise more than twofold compared with the present. And as measures for using female staff, which will continue to increase in the future as well, the proportion of "implementation of a rehiring system" (25.1 percent), "establishment of project teams centered on females" (24.9 percent) and "introduction of general positions with no transferring to other offices" (21.4 percent) have increased. One infers an attitude of companies that will try to prepare a work place environment in which it is possible for women with ambition and ability to continue working, as well as to go on making use of women's sensibility.

In regard to hiring people at a mid-career point, while there is the problem that "they are difficult to deal with after hiring," it appears to me that about one-half of firms in both manufacturing and nonmanufacturing industries will enthusiastically grapple with this situation. In the future this will be centered on "research and development fields" (70.7 percent), "sales and business fields" (57.4 percent) and "production site fields" (53.0 percent) in manufacturing industries and on "sales and business fields" (68.4 percent), "production site fields" (35.7 percent) and "the field of information-system management" (34.4 percent) in nonmanufacturing industries in order to secure staff who will provide the power to strengthen the management base, as well as be a countermeasure against a shortage of staff.

### 3. Rebuilding a Distribution Strategy

How will enterprises rebuild their distribution strategies under the transition from a system of uniform mass production to a system of small-volume production of many varieties accompanying the change to advanced consumption?

To begin with, in regard to distribution channels, 70 percent of manufacturing industries and 90 percent of distribution industries say that they will change their distribution channels in the next three years, and also the objective of that change, the proportion for "promote sales of existing merchandise" keeps declining, and "securing outlets (purchasing) for new merchandise" and "grasping user needs" have become the main objectives, so I infer that enterprises will enthusiastically grapple with discovering the diversity of user needs. And as the means to do this, in both manufacturing and distribution industries the proportion is highest for "simplification of existing channels by strengthening sales departments or purchasing departments," the next highest proportion for manufacturing industries is "development of distribution channels by setting up new links with wholesale dealers (including other companies in the same industry), and for distribution industries it is "development of distribution channels by new links with manufacturing industries (including other companies in the same industry). Along with simplifying existing channels, by promoting a change in the system of placing and receiving orders to one which is more adaptable by introduction of such things as POS [point of sales] and EOS [electric ordering system], in order to respond to diversifying user needs, I also infer an enterprise attitude of trying to respond to changes in market needs by developing new channels.

In regard to physical distribution too, 70 percent of all manufacturing and distribution industries say that they will promote change in the next three years. As a concrete change, "construction of wide-area physical distribution bases" has increased markedly, and this has become the highest proportion. On the other hand, "commissioning of the work of physical distribution to specialist entrepreneurs," which had the highest proportion for the last three years, has declined (Figure 2) [not reproduced]. This appears to be enterprise action trying to promote the building of a system of distribution shipment for small lots which are shipped frequently and reducing physical distribution cost.

In regard to sales-promotion measures aimed at enterprises, in the next three years, while the proportion of such things as "allowance of returns," "discounts and such finance services as credit sales" and "granting of sales rebates" will go on declining in both manufacturing and distribution industries, the proportion of enterprises which emphasize "shortening of the payment period," "a full assortment of merchandise" and "provision of product information and information on gathering customers" will have risen. From sales-promotion measures based on Japanese-type commercial practices, it looks like enterprise action which tries to orient itself to a consumption market which is becoming more advanced.

In regard to networks, in order to cope with consumption which is becoming more advanced, 90 percent of all manufacturing industries and distribution industries are scheduled to make use of information and communications equipment and participate in, or build, some kind of network in the next three years. And although the "in-house network" continues to have the highest proportion as the network in which they will participate or which they will build, the proportion of firms that say "a network with overseas subsidiaries," "a network within a *keiretsu*" and "a network with other industry types on a nation scale" has increased. This is enterprise action which will try to go on expanding networks to companies in a *keiretsu*, overseas subsidiaries and companies in other types of industry, along with continuously promoting improvement of in-house networks.

### 4. Companies Which Plan Integration With Overseas

How will the localization of management departments and research and development departments, of which it has been pointed out that their localization is lagging behind when compared with the rapid overseas expansion of manufacturing departments, be promoted in the future?

To begin with, in regard to operation of overseas local corporations, when we look at to what extent power is delegated to overseas local corporations in each place to which companies have expanded (North America, Western Europe, Asian NIE's [Newly Industrializing Economies] and other areas; the same below), at present the proportion for "delegating to some extent" is highest for all regions, and the next is "delegating quite a bit." In contrast with this, in the next five years the proportion for "delegating to some extent" goes on declining in all regions and the proportion for "delegating quite a bit" rises and the response-ratio is the highest. It appears to me that in the future, across all regions, power in regard to operation of overseas local corporations will go on being delegated steadily.

Moreover, if we look at the management team for overseas local corporations in each area to which Japanese companies have expanded, at present for all areas "the president is Japanese and the executives are also mainly Japanese" has the highest proportion, followed by "the president is Japanese, but the executives are mostly local people". On the other hand, in the next five years, in contrast to the fact that the proportion of "the president is Japanese and the executives are also mainly Japanese" will decline in all areas, the proportion for "the president is Japanese but the executives are mainly local people," "the president is a local person, and the executives, too, are also mainly local people" and "the president is a local person but the executives are mainly Japanese" will rise. (Table 2) Although they will promote changing the management team to local people in this way in the future, too, the proportion of firms which cite "difficulties in coordination with Japanese headquarters," "little comprehension of Japanese type management" and "danger of changing employment after promotion" as problem points in promotion of local people to management is high. In order to go on promoting changing of the management team to local people in the future as well, it appears to me that, along with nurturing

a local staff which will be a go-between like entity between Japanese-type management methods and the locality, internationalization of the Japanese headquarters itself, is indispensable, for example, promotion of staff to top positions by a global perspective, regardless of whether they are Japanese or foreigners.

**Table 2. Management of Overseas Local Corporations in the Next 5 Years (All Industries) (Units: company, percent)**

| | Listed company | President is a local and executives are also mainly locals | President is a local but executives are mainly Japanese | President is Japanese but executives are mainly locals | President is Japanese and executives are also mainly Japanese | Will not establish overseas local corporations (have none) |
|---|---|---|---|---|---|---|
| North America | 1,133 | 6.3 | 4.1 | 13.0 | 23.4 | 53.2 |
| | (1,190) | (3.7) | (3.7) | (5.6) | (30.9) | 56.1 |
| Western Europe | 1,112 | 4.6 | 3.0 | 10.23 | 16.6 | 65.5 |
| | (1,184) | (3.0) | (2.1) | (3.8) | (17.7) | (73.5) |
| Asian NIE's | 1,132 | 7.1 | 5.5 | 12.7 | 18.2 | 56.5 |
| | (1,186) | (5.4) | (4.5) | 5.7) | (22.2) | 62.2) |
| Other regions | 1,095 | 4.7 | 3.1 | 7,.2 | 11.1 | 73.8 |
| | (1,183) | (3.6) | (2.5) | (3.0) | (13.0) | (77.8) |

(Note): Figures in parentheses are proportion of responses of current management team.

Next, concerning the state of overseas location of laboratories, one out of every six manufacturing firms says that it will locate a laboratory overseas in the next three years, so it can be said that the rate of overseas expansion on the research side is still not all that high. Furthermore, concerning the fields of the laboratories that will be located overseas, the proportion is highest in "developmental research fields." Although, in contrast to this, "basic research fields" has the lowest proportion, their main objective will be "acquisition of research information," "forming ties with such basic field laboratories as universities" and "securing researchers," and it appears that it will go on increasing, albeit slowly. It appears to me that in order for companies to go on developing in the future too, along with promoting an increase in the relative importance of "basic research fields," it will be necessary to promote internationalization of research sites, and to create an environment that will accept the different kind of thinking of foreign countries.

In the foregoing I have presented the results of this survey. In the future, enterprises will probably go on promoting the efficient use of human resources, a shift to distribution strategies which attach importance to customers and realization of real global management toward the building of a new management setup.

## * M&A, Changing Sensibilities

*902A0193F Tokyo ECONOMY SOCIETY POLICY in Japanese May 90 pp 28-31—FOR OFFICIAL USE ONLY*

[Article by Hitotsubashi University assistant professor, Kunio Ito: "M&A and Change in the Consciousness of Japanese Enterprises"]

[Text] **I. Over Presence**

A public opinion poll conducted in 1988 by (Smith Kumedley), threw an important problem into relief. It was a poll of Americans concerning direct investment in America by foreign companies. According to the poll, 73 percent of those who responded named Japan as the largest investor in America, of the remainder 10 percent answered Arabs, three percent, England and two percent, Germany. But the surprising thing is that this was far from the reality. According to Commerce Department data, in 1987, one year prior to the survey, the largest investor in America was England, followed by Holland, and then Japan. Moreover, the amount of Japanese investment was less than one-half that of England. In other words, this survey clearly substantiated the fact that in the eyes of the American people the Japanese presence appears much larger than it really is.

Direct investment, too, has various forms, and one of the particularly important ones is M&A (mergers and acquisitions of companies). As is well known, in the last few years M&A by Japanese companies have increased. To cite their characteristic trends, first is the fact that the M&A have become increasingly ones across borders. As Table 1 shows, in 1985 cross-border M&A amounted to only about Y100 billion, but in 1988 it had risen to about Y1.7 trillion. The second trend is that acquisition of U.S. companies by Japanese companies has increased rapidly. Looking at it on a monetary base, what was Y89.7 billion in 1985 was Y1.5 trillion in 1988, having expanded 20-fold. The third is that the scale of each example of such acquisition of U.S. companies by Japanese companies has grown larger. Similarly, it is clear from Table 1 that from 1985 into 1988 the average scale of one acquisition grew from Y4 billion to Y11 billion. Furthermore, you will probably agree with this if you call to mind the megamergers carried out recently by Sony Corporation, Bridgestone Corporation, Saison, Aoki Corporation, Nippon Mining Co., Ltd. and Mitsubishi Estate Co., Ltd.

However, while acquisition of U.S. companies by Japanese companies has increased rapidly and grown in scale

in this manner, virtually no M&A of Japanese companies by U.S. companies is seen. M&A between Japan and America have become extremely asymetrical. And this has attracted great interest on the part of the U.S. Government and Congress and is being made an issue in the SII talks. What is still more important is that America takes the holding of each other's stock by Japanese companies as "an investment barrier" and is requesting the Japanese Government to limit it.

It can probably be said that this kind of one-way M&A is one of the causes which produced the (Smith Kumedley) survey results given earlier. Moreover, from other survey results it is also clear that American frustration toward Japanese companies is smoldering, stimulated by this kind of M&A phenomenon. According to a public opinion poll conducted in January of this year by THE NEW YORK TIMES and CBS News, 25 percent of Americans answered that Japan is "generally unfriendly." If we compare this figure with past results, it is clear how the situation has deteriorated. Because the proportion of people who answered in the same way was 19 percent in the June 1989 poll and only a mere 8 percent in 1985.

**Table 1. Acquisition of Overseas Companies by Japanese Enterprises**

| | 1985 | 1986 | 1986 | 1987 | 1988 |
|---|---|---|---|---|---|
| America | Number of cases | 22 | 59 | 106 | 142 |
| | Amount of money (Y100 million) | 897 | 3,431 | 8,118 | 15,622 |
| Other than America | number of cases | 9 | 19 | 72 | 96 |
| | Amount of money (Y100 million) | 174 | 292 | 1,290 | 1,699 |

(Note 1): Acquisition of real estate is omitted. Furthermore, only what has been officially announced is added up, so the number of cases and the monetary amount will be considerably more than this.

(Note 2): It is calculated by an average exchange rate of Y238 to the dollar in 1985, Y179 in the first half of 1986, Y158 in the latter half of 1986, Y150 in the first half of 1987, Y125 in the latter half of 1987, Y127 in the first half of 1988 and Y125 in the latter half of 1988.

(Source): Enterprise Cooperation Department, Daiwa Securities Co., Ltd.

## II: The Incentive for M&A

What are often given as the reasons why virtually no M&A of Japanese companies by American companies is seen, in contrast to acquisition of U.S. companies by Japanese companies, are the strong yen, high land prices, high stock prices and the mutual holding of shares by Japanese companies. When seen from American eyes, the factor of high stock prices in particular has an important significance because of its connection with the incentive for M&A.

In general, M&A occur in large numbers at times when there is a situation in which a separation which cannot be ignored exists between the value of an enterprise measured by the stock market (market value) and the value if one owning the enterprise directly (direct ownership value). At such a time, U.S. companies will typically have incentive to: (1) Buy back their own company's stock at the current, undervalued stock price, or (2) acquire a company, take it private, and sell it piecemeal at a higher price than the price of the entire company valued by the stock market (the so-called LBO [leveraged buy out] type). Or (3) it is also conceivable to acquire the company and preserve it strategically as an enterprise within a group. In the case of (2), one thinks of the spot sale value as the direct ownership value, and in the case of (3) one thinks of the continued maintenance value. M&A's are often said to be strategies for "buying time," and if one bases things on that idea, the value derived from that kind of shortening of time is also included in the continued maintenance value.

The fact that M&A and the buying back of a company's own stock have come to be engaged in actively since the Black Monday of 1987 substantiates that an important factor in bringing about M&A's lies in separation of the market price and the direct ownership price.

On this point, it can be said that the phenomenon of Japan's high stock prices has become an important disincentive in regard to M&A of Japanese companies. In Japan acquisition of the stock of one's own company is prohibited in principle by Article 210 of the Commercial Law Act, so Japanese companies cannot select course (1). Moreover, even with courses (2) and (3), it is difficult for there to be an incentive to purchase a Japanese company, because when viewed from a U.S. company (or a Japanese company), the perception that the market value exceeds the direct ownership value is deeply rooted.

But portents of change in this kind of situation are now appearing. This is because the sluggishness of the stock-market accompanying such things as the decline in the yen exchange rate and the raising of interest rates since the beginning of this year can provide new incentive for M&A's in regard to Japanese companies.

## III: Behavior of Japanese Companies Based on Mutual Holding of Stock

The kind of gap, mentioned before, between market value and direct ownership value, which has become a disincentive in regard to M&A of Japanese companies, is

not something which was created intentionally. In contrast to that, another "barrier," the mutual holding of stock, can be said to have been formed intentionally, so so speak, by Japanese enterprises.

Certainly, mutual holding of stock prevented the postwar cornering of stock accompanying release of stock to the general public because of the dissolution of the *zaibatsu*, and came into existence in order to evade M&A by foreign capital accompanying liberalization of capital in the 1960's. However, the mutual holding of stock which originated in that way has continued unchanged to today, with the economic logic which it possesses as a lever. Mutual holding of stock has displayed an economic effect in the points of reduction of business costs, controlling risk, sharing of information, raising funds and Japanese-type building of management systems. Furthermore, it has also established Japanese-type business concepts (for details refer to my article "The Spiral Logic Shift of Mutual Holding of Stock," BUSINESS REVIEW, (Hitotsubashi University Institute of Industrial Management) April 1990).

A particularly important point in pondering the future behavior of Japanese enterprises is the influence which mutual holding of stock has exerted on the formation of Japanese management systems. Should a change occur in the structure of Japan's mutual holding of stock in the future, or should a transformation of the structure of mutual holding of stock be rendered unavoidable because of the SII talks, it is expected that some change will occur in Japan's management system too.

Stock is furnished with two options which act as control mechanisms for companies. One is the option of sale, the other is the option of making some request to the company by exercising one's voting right at a general meeting of stockholders. Consequently, a stockholder is able to exert pressure, directly or indirectly, on the company in which he invested through the options of this kind of stock function. That is, the holding of stock operates just like having captured a "hostage," and through that, functions as a deterent power in regard to some actions of the company whose stock is held. Consequently, the mutual holding of stock has the character of having exchanged hostages with each other, so to speak.

When we begin to look at it in this manner, we can discover the meaning of the mutual holding of stock which can be seen typically in Japan, that is, the meaning of the mutual acquisition of the stock of partner companies which are in a business relationship in the aspect of a project can be found in the point of guaranteeing that they will take harmonious action as interested parties in the project, by exerting a threat toward potential hostile action by the partner company in the project transaction by the "hostage" effect through the holding of stock.

If this kind of function of mutual holding of stock is brought into full play, and a cooperative relationship is maintained in the business transaction, there is no necessity to sell the stock which one holds, nor is there any reason to exercise at the general stockholders meeting the kind of voting right which would be disadvantageous to the present management team. That is, stockholders who hold each others stock do not exercise voting rights, and in that sense they become "silent" stockholders.

If we look at it another way, it is possible to also interpret it, that by mutual holding of stock, insofar as it concerns voting rights, in practical terms, enterprises are exchanging the stock of one's own company which is held by the partner company and the partner company's stock which one's own company is holding. To be sure, the companies concerned really hold the stock of the respective partner companies; nevertheless, the fact that the partners are silent means that it is just as though a "swap of the stock" which is held mutually were carried out, and because of that it is possible to view the voting rights as having been exchanged. A point which should be heeded is the fact that the stock voting rights which are exchanged in this way revert, in practical terms, to the managers. In this sense, it can probably be said that through mutual holding of stock Japanese managers have made all sorts of decisions as "owner managers" in practical terms.

It appears to me that in this way, as "owner managers," Japanese managers were able to make economic decisions from a long-term viewpoint, giving consideration also to the interests of employees, without becoming nervous about the short-term interests of stockholders. Of course the managers are not 100 percent "owners," but the general run of stockholders had no need to pay attention to exercising voting rights because their holdings are dispersed. One can probably say that the result of this is that "owner manager" type management developed in Japan.

It can also be said that this kind of management system is one which, along with approaching as close as possible to the interests of managers and (large) stockholders, mitigates to the greatest possible extent the influence of stockholders' rights and voice on management.

Galbraith points out that in capitalism there is an element which is intrinsically very "rough." One can probably agree with this easily if one recalls the M&A situation in America. It can be said that on this point Japan's mutual holding of stock has achieved the effect of moderating that kind of "roughness" which capitalism possesses.

When we consider the function which the above kind of mutual holding of stock has performed, if it comes about that a searching inquiry is made into the system of mutual holding of stock by the SII talks, we will probably be pressed to make some kind of change in Japan's management system up to now. To put it very simply, it will probably go on drawing closer to American style capitalism, and it will probably head in the direction of

a "rough" system in which opposition between stockholders and managers surfaces.

### IV: The Consciousness Revolution of Japanese Enterprises

If the gap between a company's market value and its direct ownership value, which had become a "barrier" to acqusition of Japanese companies, shrinks or dissolves, and a searching inquiry is made into the structure of mutual holding of stock, and the phenomenon of the strong yen eases, the strong constitution of Japanese enterprises against acquisition (a constitution by which it is difficult for the enterprises to be acquired) and the traditional structure of the drawing near of the interests of manager and stockholder, will probably change. In addition, that trend will probably be spurred on by recent actions of Japanese life insurance companies, which have reigned as important "stable stockholders." This is because life insurance companies have begun to take the action of appealing to enterprises in which they invest to adhere to their publicly pledged dividend disposition, and selling their stock in companies which do not adhere to it.

It appears to me that this kind of structural change will, furthermore, press Japanese companies for a basic change in consciousness. To begin with, the first change is that they will have to be conscious of the danger of being acquired by another company (depending on the case, a foreign company). That is, it is a matter of always consciously building acquisition-defense into their economic strategy.

The second is a revolution in consciousness regarding the price of stock. Since former times, Japanese managers' consciousness of the price of their company's stock has been weak. This is also substantiated by the results of a MITI survey, "A Comparison of Behavior of U.S. and Japanese Enterprises" which was conducted comparatively recently (1988). Because in contrast to the fact that 79 percent of U.S. companies gave a rise in stock prices as the most important item, no more than a mere 12 percent of Japanese companies answered in the same way. But as I have already pointed out, a fall in the price of stock, especially a fall in the price of stock to below the direct ownership value, creates an incentive for M&A. Consequently Japanese managers, too, must raise their consciousness in regard to the price of stock as a defense measure against acquisition.

However, merely raising consciousness regarding the price of stock is not enough. Effort is needed in order to make the price of stock continuously exceed the direct ownership value. Needless to say, the price of stock is determined by the market, but it is also the grand total of the decisions of each individual investor. And in addition to macro-information, the decisions of investors are influenced by information about the company concerned. One cannot expect results just by managers stating in newspapers, etc., that "judging from our company's results, the price of its stock should be higher." Rather, it is important to get investors to have an understanding of and sympathy for the company by seizing every opportunity possible, and actively presenting to investors in a subjective manner one's own company's principles and strategy, and also detailed financial information.

It can be said that what was lacking in Japanese enterprises was this kind of communication of information with investors, strategic public relations toward investors. That kind of action is called IR (investor relations). IR can be called a marketing activity for stock. If one considers that the behavior of investors holds the success or failure of defense against acquisition, it is probable that in the future IR will become required strategic action for Japanese companies.

It is anticipated that if that kind of IR goes on spreading, occasions which until now were treated very perfunctorily, or were stripped of all content, will be reconsidered and activated. For example, Japanese companies have looked upon a general stockholders' meeting just like a "necessary evil," and have made it a virtue to be as business-like as possible and to finish in as short a time as possible. But today, when M&A are becoming important strategies, it is necessary to reverse that thinking. The general stockholders' meeting is an important occasion for IR. It is a valuable occasion for presenting the manager's basic principles. And it is also a good opportunity for winning investor sympathy.

M&A will demand a change of consciousness from Japanese companies, and a change of consciousness will occasionally demand a change in the conventional thinking to which we have grown accustomed.

## * Shape of Financial Enterprises

*902A0193G Tokyo ECONOMY SOCIETY POLICY in Japanese May 90 pp 32-36—FOR OFFICIAL USE ONLY*

[Article by Japan Long-Term Credit Bank research division member, Masaharu Usuki:"Viewing the Financial Constitution of Japanese Enterprises"]

[Text] **Foreword**

In the rise in prosperity of the last two or three years, the financial affairs of Japanese firms have undergone a great transformation. Along with grasping this state of affairs, the present article will attempt a simple survey of the kind of form enterprise finance will take in the future accompanying such recent changes in the environment of enterprise finance departments as tightening of finance, internationalization of capital exchange and completion of financial liberalization.

### Special Characteristics of Financial Affairs in a Strong-Yen Prosperity

The factors which control the nature of enterprise finance can be roughly divided into two. One is the

economic and financial situation at the time; the other is on the system side, the regulation and framework of financial markets.

When we look at recent trends in company finance from this aspect, to begin with, we can probably say that changes in the economic and financial situation since the Plaza Accord of 1986 have also brought about a turning point in company financial affairs. As is well known, the sudden strengthening of the yen initially caused a recession, but following that, an expansion of business conditions has continued for over 40 months. Enterprises became bullish on the future, and plant and equipment investment increased greatly, reaching the point where it exceeded 20 percent even as a proportion of GNP.

On the other hand, on the finance side, partly with the idea of preventing a strong yen, a policy of relaxation was taken over a long period, with such things as the official rate being left at 2.75 percent for 27 months.

If we look next at the system side, a series of liberalization measures by the Joint Japan-U.S. Ad Hoc Group on the Yen/Dollar Exchange Rate, Capital and Market Issues have progressed. To cite things which have a particularly strong connection to enterprise finance, there are such things as liberalization of large, fixed-term bank deposits, removal of the ban on the issuing of CP [commercial paper], introduction of the rating of bonds, etc., and expansion of the firms eligible to issue unsecured corporate bonds.

I shall list the recent special characteristics of enterprise finance in this kind of environment.

### A. Increase in Shortage of Funds for Companies

Along with companies increasing their self-confidence in regard to the future, and increasing investment in such material assets as plant and equipment and inventory, enterprise shortage of funds (the difference between internal funds, which are made up of the sum of depreciation and profit reserves, and investment in material assets) has expanded. When we look at this as a proportion of nominal GNP, it was over 10 percent in the period of high growth, but had declined to 2 to 3 percent after the second oil shock. But it began to rise in the latter half of FY86, and was over 5 percent in both FY87 and FY88.

### B. A Decline in the Degree of Dependence Upon Loans and an Increase in Raising Money Through Securities

If we look at the kind of methods by which the funds which are lacking are raised, the degree of dependence on loans has declined, and in its place, the proportion of funds raised by such forms of securities as corporate bonds, increased capitalization and CP has risen. The ratio of loans to securities was approximately six to one in 1980, but it gradually decreased, and in FY85 and FY86 had become four to one. Because of the vogue of equity fund-raising using the high price of stocks, and the rapid increase in fund-raising by CP, in FY88 it fell to two to one.

At large enterprises in particular, the shift to raising of funds by securities is rapid, and a trend to repay loans with funds raised by issuing convertible debentures and warrant bonds is conspicuous. As a result of capital being expanded by exercising the rights of convertible debentures and warrant bonds and by issuing of new shares to stockholders at the market price, and of debt having declined on the other hand, was that the ratio of one's own capital increased. Particularly when we look at large manufacturing enterprises, it was 22 percent in FY80 and 30 percent in FY85, and in FY88 it had become 36 percent.

### C. Sophisticated Financial Management and an Increase in the Ratio of Available Liquidity

The investment of the financial assets of companies, which is called sophisticated financial management, was seen beginning in the period of the reduced volume economy after the oil shocks, but recently it has expanded further, and its methods have also become diverse. Behind this is the fact that while on the one hand such means of investment as large term accounts and specific cash trusts expanded because of financial liberalization, raising money at low interest became possible because of the easing of finance.

For example, the proportion of a company's accounts which was made up of large term accounts and MMC [money market certificates] was only 10 percent at the end of FY85, but lately it exceeds 90 percent. Furthermore, centered on such nonmanufacturing industries as wholesale and retail sales, an increase by the hedging of liabilities and assets, such as investing funds raised by corporate bonds, CP and so on in such securities as large-term accounts and specific cash trusts, is conspicuous.

If we look at the fluctuation of enterprise available liquidity (as a proportion of sales), this kind of trend is reflected. By rights a fixed proportion of sales is taken to be the goal for available liquidity, so it is normal for it to drop when money is tight, recover when there is an easing of finance, and remain on the same level after that. But at the last time of easing, with FY80 (9.6 percent) as the bottom, after it rose it began rising again rapidly in FY86 (10.9 percent), and in FY88 reached 13.5 percent, the highest level ever. I take this to be something which reflected a liquidity which was the goal of sophisticated financial management, and which was related to sales.

**Table 2. Fluctuation of Debt Ratio by Scale of Enterprise**

| Item | fiscal year | 80 | 85 | 88 |
|---|---|---|---|---|
| Capital plus capital reserves/ | I | 9.2 | 12.1 | 13.5 |
| /Total capital used | II | 4.9 | 4.1 | 3.9 |
| | III | 4.0 | 3.6 | 3.1 |
| Corporate bonds/ | I | 5.3 | 7.8 | 9.5 |
| /Total capital used | II | 0.01 | 0.1 | 0.3 |
| | III | 0.0 | 0.01 | 0.02 |
| Proportion of available liquidity (vis a vis sales) | I | 9.9 | 10.7 | 15.9 |
| | II | 10.8 | 11.5 | 12.4 |
| | III | 9.2 | 10.1 | 12.7 |

I: Capital of Y1 billion or more. II: Capital between Y100 million and just below Y1 billion. III: Capital of less than Y100 million. Data: Ministry of Finance annual report of corporate enterprise statistics.

**D: Difference Based on Enterprise Scale**

These special characteristics can be given for enterprise departments as a whole, but when we look at enterprises by scale the situation is different. First of all, when we look at the aspect of raising funds, as seen in Table 2, if we look at the ratio of total capital used vis a vis capital, and of capital reserves (both of which increase by increasing capital) to corporate bonds, in large enterprises both have risen, but in small and medium enterprises the former has declined, and the latter, too, has hardly risen at all.

This indicates that raising of funds by such securities as corporate bonds and increasing capital is centered on large enterprises, and that in small and medium enterprises the main part of fundraising is still loans.

On the other hand, when we look at the investment side, the larger the enterprise the greater has been the rise in the ratio of available liquidity in the last few years. Even if we consider that liberalization of bank account interest has progressed from large accounts, is it clear that the trend of sophisticated financial management was more active in large enterprises?

**Tight Money and Enterprise Finance**

However, from last year into this year the environment which surrounds enterprises has changed, and accompanying that, the proper nature of enterprise finance is also about to change.

That is, because of the tightness of labor supply and demand, and a weak yen, concern has grown that inflation will expand from stock to prices in general. In order to cope with this, monetary policy has reverted to tightening, so the era of easy money which continued for 8 years ended.

Furthermore, when we look at the domestic/foreign balance, improvement of the imbalance on the foreign trade side has progressed as a result of progress in the conversion to an economy centered on domestic demand. The result of this is that viewed in terms of nominal GNP, the current-account surplus, which was almost 5 percent in the peak year of 1986, became less than 2 percent in 1989.

The greatest influence which this kind of change exerts on enterprise finance is the stagnation of stock prices. Originally, Japanese stock prices were quite high in international terms, and that separation widened still further because of the rise in stock prices since 1986. For example, if we look at it in terms of the PER [price earnings ratio], in contrast to the fact that it is 10 to 15 fold on the markets of virtually all European and American countries, in Japan it was almost 60 fold at the end of last year. Moreover, even if we look at the price book value ratio, in contrast to the fact that it is slightly less than two fold in America, in Japan it is almost five fold.

Incidentally, as we have already seen, from 1986 onward the increasing of capital by enterprises and the issuing of convertible debentures and warrant bonds by companies has increased rapidly, so a considerable volume of stock has been supplied to the market. The reason why stock prices rose in spite of this is none other than that there was a demand which exceeded the supply.

Therefore, if we look at the state of stock acquisition by sector (Table 3), it is clear that since 1985 an amount of stock in excess of every year's net increase was being purchased by financial institutions.

**Table 3. Net Increase in Amount of Stock Held Based on a Money-Flow Transaction Table (trillion yen)**

| | Financial institution (domestic trust) | Government | Local public body | Corporate enterprise | Individual | Overseas | Total |
|---|---|---|---|---|---|---|---|
| 1988 | 19.9 (9.0) | -2.8 | 0 | 2.9 | -1.5 | 0.8 | 19.3 |
| 1987 | 21.7 (12.7) | -7.7 | 0 | 4.0 | 5.4 | -6.1 | 17.3 |
| 1986 | 12.9 (8.2) | -0.3 | 0.1 | 0.3 | -1.5 | -2.4 | 9.1 |
| 1985 | 5.1 (2.6) | 0 | 0 | 0.2 | -0.5 | -0.1 | 4.7 |
| 1984 | 4.3 (2.0) | 0 | 0.1 | 0.4 | 0.6 | -0.8 | 4.6 |

Data: Bank of Japan Money Flow Chart

In the case of financial institutions there are two motives for buying stock. One is purchase which aims at capital gains. Particularly because in addition to demand for loans having stagnated, the yield from holding bonds had declined, active purchasing of stocks was carried out with the objective of securing revenue.

The other is the so-called mutual holding of stock. They hold a certain proportion of the added stock as stable stockholders of business corporations. In this case, too, it is desirable for them, as a financial institution, that the price of the stock rise. Because the amount of the increase becomes a buffer for profit and loss as so-called off-record profit.

And as might be expected, to this were added purchases by business corporations and individual investors with too much money, because they expectated prices to rise, and it can be said to have produced a rise in stock prices.

However, conditions have changed because of the above-mentioned changes in the economic and monetary situation. That is, because of the rise in interest rates it has become possible for financial institutions to obtain a rather high return even with loans and investment based on the holding of bonds. Moreover, because of the shrinking of the current account surplus and the high-level outflow of long-term capital, the capital which surrounds domestic stock has begun to decline. It is permissable to call it the death of the excess of money.

On the other hand, not only has the supply of stock grown because of the increase in capital of the last two or three years, latent stock made up of the unconverted portion of convertible debentures and the unexercised portion of warrants has increased, and is said to have now reached 7 percent of all listed stock.

When we consider this supply and demand situation, it is difficult for the present to think that the price of stock will rise in the way it has up to now. It appears to me that the stagnation of stock prices since the beginning of this year is a reflection of this situation.

In the aspect of enterprise procurement of funds, the stagnation of stock prices makes low-cost procurement of funds by equity instruments difficult. Not only has the issuing base interest rate for warrant bonds and convertible debentures already been raised, the issuing has stopped for all practical purposes.

On the other hand, in the aspect of investment of funds, it causes a shift of funds from such risk-assets as stock to areas with established interest such as bank accounts.

Not only that, a shift from financial assets to material assets will probably be seen. Particularly when you consider the desire for plant and equipment investment, which is still strong, it is probable that a trend will emerge of tearing down funds for sophisticated financial management and applying them to investment. To put it conversely, it is difficult to think that in large companies with leeway in available liquidity, plant and equipment investment will fall because of a slight rise in interest rates. This kind of shift of funds from financial assets to material assets was already seen beginning in 1988.

**Financial Liberalization, Internationalization and Structural Changes in Financial Affairs**

If we widen our viewpoint from the medium to the long term, first, on the system side, financial liberalization will finally have entered the stage of completion. This will increase company options, but, on the other hand, it will make fluctuations of interest and exchange rates severe.

Furthermore, the international integration of financial markets will advance further, so company options will expand on this side too. On the other hand, one can predict that as the flow of funds across national borders increases, things which are common to every country will increase as the basis for an investor's judgement as to where to invest.

It appears to me that these structural factors produce still greater changes in enterprise finance than the business cycle. In the following I will list things in a concrete manner.

A. Enhancement of the position of stockholders: at present the yield from stock dividends in Japan is less than 1 percent, and has become the lowest in history. Now, when the hopes which stockholders had for a rise in value have begun to wither because of tight money, it is doubtful whether this kind of low dividend can be maintained.

Not only that, the activation of international exchange of capital will probably press from two sides for reconsideration of the relationship of stock holder and company. One is the fact that as overseas investment by Japanese grows more active, overseas stock will be compared with ours, so demands to Japanese companies to return profits to investors will become strong.

The other are demands for reconsideration of such *keiretsu* relationships as mutual holding of stock, which come from investment friction. If holdings by foreign stockholders and floating stock go on increasing because of this, the company side, too, will have to attach importance to returning profits to the stockholder in order to maintain the price of the stock. In any case, it is certain that managers will have to face more in the direction of the stockholder than they have up to now.

If the position of stockholders goes on rising in this manner, it will bring about a trend toward those companies engaged in procurement of funds geared toward equity because of the lower cost.

Incidentally, when we look at the latest situation of U.S. companies' raising of funds, while procurement by debt is increasing rapidly, they are buying from the market for the purpose of mergers and acquisitions, so there has been a net decline in share capital. It can be said that American capitalism, which places the interests of the stockholder first, is connected to M&A, and that is producing the trend from stock to debt.

This truly makes a good contrast with the boom in equity procurement in Japan, where the interests of stockholders have been ignored. But in the future will not both of these trends which have gone too far swing back?

It is probable that in America there will be reflection on the fact that excessive debt heightens the risk of bankruptcy, and conversely, in Japan companies will take another look at procurement by debt, partly because a full-fledged recovery in stock prices cannot be hoped for in Japan for some time.

Even in that case, one cannot minimize the tide of a greater importance for securites in enterprise finance. Consequently, particularly in the case of large enterprises, what will be used as debt is not loans, it will have to be CP and ordinary corporate bonds. Liberalization of the CP market and the domestic market for ordinary company bonds is desired for that reason too.

B. A change in the quality of sophisticated financial management: the progress of tight money and liberalization have rendered sophisticated financial management for the simple making of money by a profit margin difficult. On the procurement side, tight money and stagnation of stock prices have caused a rise in costs; on the other hand, return on investment has not increased all that much, because competition among capital investors has become fierce. Moreover, because of financial liberalization, risk-free arbitrage which follows so-called loopholes in the regulations has also become difficult.

For example, by investing in large term-accounts funds which were raised by CP, where in the past it was once possible to obtain a profit margin of 1 percent or more, now because of such things as regulations on investment by financial corporations in CD's, etc., having been eased and the Bank of Japan's introduction of a new financial adjustment formula, it has become a profit margin on the level of 0.15 percent.

It is expected that in the future sophisticated financial management carried out for purposes other than simple investment of funds will go on increasing. For instance, because of the introduction of rating, it will become necessary to control expansion of assets in terms of the balance sheet, and maintain the ratio of net worth to total capital. One example would probably be cutting of ties with subsidiary firms and balance sheet control which turns assets into securities for that purpose.

**The Finance Department as an Information Center**

In closing, I would like to consider the role of a finance department in a company under liberalization of finance and internationalization.

Looking back, in the period of high growth the finance department was a cost center, the primary goal of which was to collect the amount of funds required by the main business at the lowest possible cost. However, because of the sophisticated financial management of the last few years, its role has become stronger, as a profit center which earns revenue. But now, when simple sophisticated financial management is becoming difficult, it appears to me that the emphasis will once more return to the former direction. Therefore, the level of information that will be required will probably become markedly higher than in the period of high growth.

For example, let us consider finance in the case of overseas local production. Up to now, the raising of funds at a location to which a company had expanded was usually done under the supervision of the parent company by making use of the parent company's capital power and credit power. But now examples have increased in which it is left to local procurement and investment.

Because if the local corporation gains credit power, and if there is frequent demand for funds, it will not be all that much of a waste even if one expands the local financial affairs staff which takes care of that. Furthermore, it is also close to local information not only on the finance market, but also concerning the tax system and laws.

Even so, when the places to which the company expands increase, contrary to what one might expect, giving all subsidiaries a finance function leads to a decline in efficiency. Therefore there are also many enterprises which establish in each region, such as Asia, Europe and America, a finance subsidiary which controls financial affairs.

In such a case, giving advice as needed becomes the main role of headquarters finance. But it retains the power of decision on important matters. Consequently, it becomes necessary to fully comprehend the finance methods which can be used, and the merits and demerits of each in terms of cost, risk, tax system and laws, and to compare this with the needs of the project in question. In addition, it must also make the decisions of where to establish subsidiaries, and to what extent it is best to delegate authority to them.

Thus, when raising funds for one's main business, wide ranging knowledge becomes necessary not only concerning the content of the business of one's own company, but concerning the newest financial technology, and tax matters and laws. Consequently, the finance department should probably be placed in the important position of gathering information inside and outside the company.

Furthermore, regardless of whether it be sophisticated financial management or procurement of funds for business, as is also clear from the fact that the fluctuations in interest and exchange rates have become larger, the types and volume of risk borne by enterprise finance have expanded rapidly. Even in the current situation of rising interest, it is to be expected that companies which had not neglected to guard against risk by such things as selling interest futures were able to offset the cost to a considerable extent. This kind of risk management is becoming an extremely important task. And even in this aspect, the collection and analysis of information concerning the economy and the monetary situation are indispensable.

Along with finance departments' role as an information center becoming stronger in this way, the proper nature of bank transactions will also probably begin to change. Within the role which banks have played up to now, such things as the function of the lender of last resort when business results are not going well will become less important, and it is rather information service concerning financial techniques, risk management systems and the economy and finance that will be highly evaluated.

Even so, there are, of course, differences based on enterprise-scale, and even with companies of the same scale, there are in such aspects as accumulation of knowhow and training of staff differences between such enterprises as trading companies and non-bank institutions, which are close to the finance industry, and general business companies, which are not. A class difference in the proper nature of finance, including the relationship with banks, will probably come into being in accordance with this.

In addition, the proper nature of finance is influenced by factors which can be said to be virtually infinite, such as the history of the company itself, or of the industrial circle to which it belongs, the place in which the company is trying to invest and the conditions for recovery of the money invested. Moreover, the situation from now on will be that there are enough options to cope with that.

In that sense, we can be said to have entered an era of "corporate" finance which has truly broken away from the idea of trying to all be the same.

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## * Service Industry Labor Shortage

*902A0193H Tokyo ECONOMY SOCIETY POLICY in Japanese May 90 pp 42-46—FOR OFFICIAL USE ONLY*

[Article by Japan Management Association Management Reform Research Institute senior researcher Masatoshi Okura: "Service Industries are Confronting a Labor Shortage"]

[Text] Today, the management problems which service industries are confronting are diverse. In particular, it must be said that in the midst of development of a "seller's market" labor market, the tightness of employment has become much more acute. This is made more important in that there is a gap between manpower demand and supply which is not only quantitative but also qualitative.

The Japan Management Association (Inc.) (hereinafter JMA) has been conducting "Fact-Finding Surveys of

Service Industry Management Problems" since 1986 in order to grasp the economic environment and problems which service industry enterprises are confronting, and compile it into reference material for future management.

In FY89 in light of the above-mentioned conditions, the association conducted a survey with the objective of grasping "the present state and tasks of the employment situation for the service industry" and clarifying the problems and direction of future improvement of management.

In the following, centering on the response-results of the 338 companies whose cooperation we received in the fact-finding survey, and adding also the results of other survey research carried out by JMA, I would like to discuss the actual situation and countermeasures of service industries which confront a manpower shortage.

What JMA has surveyed up to now, within service industries, was mainly the retail industry, hotel industry, restaurant industry, sports and leisure industry and transportation industry, and I would like to warn in advance that at my discretion such industries as hospitals, travel industry, private universities and specialized schools and the finance and insurance industries have been added to those covered.

## 1. The Actual State of Hiring

### Eighty Percent of Manpower Is Invested in Management Departments Which Have Direct Contact With Hiring

Most service industries adopt a form of business which provides service by coming into direct contact with customers, and Figure 1 [not reproduced] shows the proportion of manpower which is being invested in these direct-operation departments, auxiliary operation departments, which are operation departments but have no contact with customers, and administrative departments.

It is clear that, whatever the type of industry, the greatest amount of manpower is invested in operation departments.

### There Is a High Degree of Dependence on Nonregular Staff

Nonregular staff is made up of part-time and temporary workers, temporary staff on transfer, contract staff, visiting staff and commissioning from outside businesses, and Figure 2 [not reproduced] looked at the proportion of all staff occupied by nonregular staff (degree of dependence on nonregular staff).

In contrast to the fact that the degree of dependence on nonregular staff is low in the finance and insurance industry, the sports and leisure industry and the transportation industry, it has become high in the retail industry and restaurant industry. Attention is given in particular to the fact that 28.8 percent of the restaurant industry hires nonregular staff for over 80 percent of its staff.

## 2. A Situation of Excessive Shortage of Manpower

### The Excessive Manpower Shortage Differs According to Industry Type and Industry Form

It is clear that service industries have insufficient manpower, but the degree differs depending on the type of industry and form of industry. If we look at the proportion of those which say that the manpower is "insufficient" and "somewhat insufficient," the difference between industry types which are conspicuous, like the retail industry (50 percent), hotel industry (67.9 percent) and restaurant industry (92.3 percent), and those of which there are few, like the finance and insurance industry (26.3 percent), is striking.

However, in the case of the retail industry, it is noted that the difference is that in contrast to the rate of sufficiency being relatively high (53.3 percent) in department stores, it is low in supermarkets (20 percent) and specialist retailers (30 percent). Furthermore, in the transportation industry, too, in contrast to railways being 100 percent sufficient, buses and taxies are only 33.3 percent sufficient, and trucking and freight are 28.6 percent sufficient, so a difference in the state of excessive shortage is seen even in the same type of industry.

### General Regular Staff Members Who Have a Certain Level of Ability and Technical Skill Are in Short Supply.

What types of employees are in short supply? In every type of industry most companies complain of a shortage of regular staff members, but it is striking that in the retail industry and restaurant industry there is a strong sense of a shortage of part-time and temporary workers. Within the retail industry, in contrast to the fact that there is a shortage of part-time and temporary workers in department stores, supermarkets, etc., in specialized retail shops it is a shortage of regular staff members which is complained of. In the hotel business the shortage of regular staff members is more serious in traditional Japanese inns than in hotels.

As seen earlier, in companies 80 percent of the manpower is invested in operational departments, so the labor shortage in operation departments is conspicuous.

In the situation of excessive shortage of employees by class, the shortage of general employees is conspicuous, but in the finance and insurance industry many cases are seen of a shortage in the area of supervisor-administrator compared with other types of industry.

Furthermore, Figure 5 [not reproduced] looks at the employees who are in short supply according to their level of ability and technical skill. It is clear that rather than there being a shortage of employees with "advanced" ability and technical skill, it is employees who have "a certain level of" ability and technical skill.

As the phenomena which indicate a shortage of manpower, all of 55 percent of places say "even if we recruit there are no candidates/few candidates," and the companies which complain that "people who possess the job skills and technology that the company side is seeking do not apply/are small in number" are sports and leisure (37.5 percent) and finance and insurance (31.6 percent).

### 3. Causes of the Manpower Shortage

As to the causes of the manpower shortage which service industries are confronting, all sorts of problems are interrelated in a complicated manner, but I shall attempt to explain how the company side is thinking by dividing them into social causes and in-house causes.

#### The Primary Social Cause Is the Absorption of Manpower Because of Good Working Conditions in Other Industries....

The actual situation is that up to now service industries have fulfilled the role of a manpower buffer. Among social causes, the retail industry, hotel industry, restaurant industry and transportation industry cite "other industries absorption of manpower with good working conditions" as the greatest concern. In second place they give a lack of attraction of the service industry itself (Table 1).

**Table 1. Social Causes of the Manpower Shortage**

| | First place | Second place | Third place |
|---|---|---|---|
| Total | Absorption of manpower because of good conditions in other industries (25.7 percent) | Insufficient attraction in service industry itself (17.0 percent) | Intensification of such inter-company competition as expansion of scale (16.7 percent) |
| Retail industry | Absorption of manpower because of good conditions in other industries (29.5 percent) | Insufficient attraction in service industry itself (19.7 percent) | Worker's feeling of resistance toward service work (14.8 percent) |
| Hotel industry | Absorption of manpower because of good conditions in other industries (24.5 percent) | Insufficient attraction in service industry itself (20.4 percent) | Decline in working population of region/diverse, varied types of service industry (12.2 percent) |
| Restaurant industry | Absorption of manpower because of good conditions in other industries (32.7 percent) | Insufficient attraction in service industry itself (21.2 percent) | Intensification of such inter-company competition as expansion of scale (17.3 percent) |
| Transportation industry | Absorption of manpower because of good conditions in other industries (39.5) | Decline in working population of region/intensification of such inter-company competition as expansion of scale/appearance of diverse, varied types of service industry/ insufficient attraction in service industry itself (13.2 percent) | |
| Sports and leisure industry | Appearance of diverse, varied type of service industry (17.9 percent | Insufficient attraction in service industry itself (16.1 percent) | Worker's feeling of resistance toward service work (14.3 percent) |
| Finance, insurance industry | Intensification of such inter-company competition as expansion of scale (63.2 percent) | Absorption of manpower because of good conditions in other industries (15.8 percent) | Appearance of diverse, varied types of service industry (10.5 percent) |

Note: Responses are single answers

According to a survey of approximately 2,000 new university graduates which JMA conducted in March 1990, the foremost reason for selection of a company is "type of industry." The next is "type of occupation and content of work."

In "Research on Enhancement of the Status of Service Industries," which JMA spent 2 years researching, and finished in May 1986, we conducted surveys of the "social-evaluation image" and "work image" of students and the general public in regard to service industries. The items for evaluation with the "social evaluation image" were "stability," "international character," "topicality," "contribution to society," "growth" and "social evaluation." According to this, moderate evaluations for service industries were over 50 percent, more numerous than favorable evaluations and unfavorable evaluations. Service industries are seen as, so to speak, "industries whose evaluation is still not determined."

The items for evaluating the "work image" are "the work's simplicity," "display of ability," "training of people," "work satisfaction," "salary," "working hours," "benefits," "advancement in grade and advancement to higher rank" and "hope to be hired." For the most part the evaluation was "ordinary" to "a bit low."

Judging from these results, it is clear that the insufficient attraction of service industries themselves is the fundamental cause of the manpower shortage for service industries.

### Most In-House Causes Result From the Operating Setup

What are the problem points of individual companies in regard to the present manpower shortage? As common problems which all companies have, there are: "operating on Sundays and holidays," "difficulty in taking rest breaks, days off and vacations" and "long working hours," which are matters related to the work environment (Table 2). These result from the operating setup, and they are a cause for insufficient attraction in the service industry itself.

### 4. Policy To Secure Manpower

What countermeasures are the service industry companies which have the various problems described above taking in their approach to this.

### Measures To Secure Additional Manpower

The basic measures for "securing additional manpower" which each company is taking are "publishing help-wanted adds," "introducing and increasing the number of part time students" and "making use of employment agencies." In addition, the retail industry and restaurant industry also do things like "placing help-wanted adds inside the shop or in front of the shop," and the sports and recreation industry also "employs retired people." Furthermore, the finance and insurance industry holds a lot of "seminars to familiarize people with the company."

**Table 2. In-House Problems of the Manpower Shortage**

| | First place | Second place | Third place |
|---|---|---|---|
| Total | Operation on Sundays, holidays (69.6 percent) | Difficult to take rest break, day off, vacation (33.3 percent) | Long working hours (25.7 percent) |
| Retail industry | Operation on Sundays, holidays (91.8 percent) | Difficult to take rest break, day off, holiday (37.7 percent) | Long working hours (31.1 percent) |
| Hotel industry | Operation on Sundays, holidays (73.5 percent) | Working hours per day are irregular (65.3 percent) | Difficult to take rest break, day off, holiday (38.8 percent) |
| Restaurant industry | Operation on Sundays, holidays (67.3 percent) | Long working hours (34.6 percent) | Difficult to take rest break, day off, holiday (32.7 percent) |
| Transportation industry | Long working hours (52.6 percent) | Operation on Sunday, holidays (39.5 percent) | Working hours in 1 day are irregular (26.3 percent) |
| Sports, leisure industry | Operation on Sundays, holidays (87.5 percent | Salaries are low (32. 1 percent) | Difficult to take rest break, day off, holiday (28.6 percent) |
| Finance, insurance industry | Difficult to take rest break, day off holiday (42.1 percent) | Salary is low/working hours are long (31.6 percent) | |

Note: Responses are single answers

### Measures for Keeping Manpower

As to measures for the purpose of keeping manpower, it can be said that they include implementation of:

(1) measures related to working conditions—"increasing days off and vacations", "shortening working hours" and so on

(2) measures related to education and training—"perfecting a system of employee education and on the job training," "assisting the acquisition of academic record and qualifications" and so on

(3) measures to make in-house communication smoother is high and general.

However, if we look at the relationship between the in-house causes for the manpower shortage which each company recognizes and the state of implementation of measures for the purpose of keeping manpower, it becomes clear that the corresponding measure is not necessarily implemented.

For example, in contrast to the fact that only 18.8 percent of companies which cite "the working hours are irregular" as a problem, adopt the measure of "making the working hours regular," implementation of the measures "increasing days off and vacations" (57.5 percent), "perfecting a system of employee education and on-the-job training" (52.5 percent) "making work-place communication smoother" (48.8 percent) is high, so one can infer that companies would take action to keep manpower by substituting remedies for problems which it considers difficult to solve (Table 3).

**Table 3. "What Kind of Measures are Being Employed Against the Problems Which Each Company has?" (The State of Implementation of Measures To Keep Manpower for Each Problem of Manpower Shortage Peculiar to Your Company) (Unit: Percent)**

| Manpower shortage problems peculiar to each company Measures for the purpose of keeping manpower | Shorten working hours | Regularize working hours | Reduce operation on Sundays, holidays | Increase days off, vacation | Perfect the system of benefits | Make communication in the work place smoother | Employ a system of specialized work | Perfect a system of employee education and on the job training | Assist acquisition of academic record and qualifications | Engage in P.R. activity to enhance the company image | Reduce the work load per person | Put into practice a system of in-house awards | Make public information concerning the management of one's own company |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Working hours are long | 50.0 | 20.0 | 4.4 | 54.4 | 44.4 | 47.8 | 4.4 | 54.4 | 17.8 | 33.3 | 16.7 | 41.1 | 14.4 |
| Working hours for 1 day are irregular | 43.8 | 18.8 | 3.8 | 57.5 | 40.0 | 48.8 | 6.3 | 52.5 | 17.5 | 26.3 | 13.8 | 36.3 | 18.8 |
| Operations on Sundays, holidays | 46.4 | 18.8 | 3.6 | 58.9 | 41.7 | 51.0 | 9.4 | 52.1 | 19.8 | 27.6 | 12.5 | 39.6 | 18.2 |
| Difficult to take rest breaks, days off, vacation | 40.2 | 22.8 | 8.7 | 62.0 | 46.7 | 56.5 | 12.0 | 57.6 | 20.7 | 35.9 | 14.1 | 42.4 | 21.7 |
| System of benefits not complete | 41.7 | 16.7 | - | 54.2 | 33.3 | 37.5 | 4.2 | 58.3 | 16.7 | 29.2 | 16.7 | 8.3 | 4.2 |
| System of employee education and on-the-job training not prepared | 25.0 | 18.8 | - | 43.8 | 43.8 | 43.8 | 6.3 | 62.5 | 18.8 | 18.8 | 6.3 | 31.3 | 18.8 |

**Table 3. "What Kind of Measures are Being Employed Against the Problems Which Each Company has?" (The State of Implementation of Measures To Keep Manpower for Each Problem of Manpower Shortage Peculiar to Your Company) (Unit: Percent) (Continued)**

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Work is heavy labor | 48.3 | 24.1 | 6.9 | 65.5 | 65.5 | 58.6 | 6.9 | 62.1 | 10.3 | 44.8 | 20.7 | 51.7 | 24.1 |
| Work requires high technical skill | 35.3 | 11.8 | 5.9 | 58.8 | 29.4 | 52.9 | 17.6 | 41.2 | 35.3 | 11.8 | 5.9 | 35.3 | 23.5 |
| Work has a bad image | 37.1 | 22.9 | 11.4 | 65.7 | 57.1 | 34.3 | 5.7 | 60.0 | 31.4 | 42.9 | 22.9 | 54.3 | 28.6 |
| Commuting to work is inconvenient | 42.3 | 30.8 | 3.8 | 53.8 | 30.8 | 46.2 | 7.7 | 50.0 | 19.2 | 34.6 | 7.7 | 38.5 | 19.2 |

Note: Problems peculiar to each company had multianswers up to three; Measures for the purpose of anchoring manpower had multianswers

In addition, Figure 7 [not reproduced] plotted the state of implementation of these measures for keeping manpower, and their effect by taking the effect for the vertical axis and the degree of implementation for the horizontal axis. When we look at this, the state of implementation of the measures and the effect are not necessarily in a proportional relationship, and it is clear that there are measures such as "implementing a system of in-house awards" for which not much of an effect is seen proportionate to the high degree of implementation, and measures like "making the work hours regular," which, although their rate of implementation is low at the present stage, appear to me to be fairly effective.

### 5. Proposals

The lack of attractiveness of service industries themselves is the fundamental cause for the manpower shortage. Therefore, I would like to request that the nation's policy in regard to the manpower shortage in service industries seek to improve these industries, and their modernization.

#### 1. Promotion of Rationalization and Mechanization

Many companies which lament the current shortage of staff are planning to continue in the manner in which they have been operating to to now, without rationalizing or mechanizing. They must reconsider their work methods up to now, push ahead with rationalization of their work, and correct the placing of an excessive burden on the workers. In addition, it is necessary to promote mechanization so that it will be possible to substitute machines or to lighten labor by introducing machines.

In particular, it is necessary positively to mechanize 4D (difficult, dirty, dark, dangerous) work.

#### 2. Maintenance of Controls on Introduction of Overseas Manpower

The reason people want to introduce foreign manpower is in order to have it do 4D and menial work which the Japanese dislike. What should be done now is the rationalization and mechanization of that work; introduction of cheap foreign manpower would only delay the modernization and rationalization of Japan's service industries. Moreover, it would invite criticism of Japan from overseas.

#### 3. Promotion of Rehiring Middle-Aged and Elderly Persons

In entering an aging society, work at which middle-aged and elderly persons can earn money becomes necessary. Fortunately, there are many kinds of occupations in

service industries in which value can be added to service because of the life experience and "age" of persons of middle or advanced age. Measures which promote the rehiring of middle-aged and elderly persons are hoped for.

#### 4. Regularization and Shortening of Working Hours

In addition to shortening total working hours, it is necessary to strongly promote such things as making working hours regular.